



# LifeTech Scientific Corporation 先健科技公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01302



# 2016 | ANNUAL REPORT

# CONTENTS

Corporate Information	2
Financial Summary	4
Chairman's Statement	5
Management Discussion and Analysis	8
Biographical Details of Directors and Senior Management	20
Corporate Governance Report	26
Directors' Report	38
Independent Auditor's Report	55
Consolidated Statement of Profit or Loss and Other Comprehensive Income	61
Consolidated Statement of Financial Position	62
Consolidated Statement of Changes in Equity	64
Consolidated Statement of Cash Flows	65
Notes to the Consolidated Financial Statements	67

# CORPORATE INFORMATION

AS AT 24 MARCH 2017

## EXECUTIVE DIRECTORS

XIE Yuehui

*(Chairman and Chief Executive Officer)*

LIU Jianxiong

*(Chief Financial Officer and Company Secretary)*

XIAO Ying (appointed on 28 March 2016)

## NON-EXECUTIVE DIRECTORS

WU Jianhui (resigned on 28 March 2016)

CLEARY Christopher Michael

MONAGHAN Shawn Del

JIANG Feng

## INDEPENDENT NON-EXECUTIVE DIRECTORS

LIANG Hsien Tse Joseph

WANG Wansong (appointed on 29 January 2016)

ZHOU Gengshen (resigned on 29 January 2016)

ZHOU Luming

## COMPANY SECRETARY

LIU Jianxiong

## AUTHORIZED REPRESENTATIVES

XIE Yuehui

LIU Jianxiong

## AUDIT COMMITTEE

LIANG Hsien Tse Joseph *(Chairman)*

ZHOU Luming (appointed on 28 March 2016)

WU Jianhui (resigned on 28 March 2016)

WANG Wansong (appointed on 29 January 2016)

ZHOU Gengshen (resigned on 29 January 2016)

## NOMINATION COMMITTEE

ZHOU Luming *(Chairman)*

XIE Yuehui

LIANG Hsien Tse Joseph

## REMUNERATION COMMITTEE

WANG Wansong *(Chairman)*

(appointed on 29 January 2016)

ZHOU Gengshen

(resigned on 29 January 2016)

CLEARY Christopher Michael

LIANG Hsien Tse Joseph

## HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

## WEBSITE

[www.lifetechmed.com](http://www.lifetechmed.com)

## STOCK CODE

1302

## LISTING DATE ON THE GROWTH ENTERPRISE MARKET

10 November 2011

## DATE OF TRANSFER OF LISTING FROM GROWTH ENTERPRISE MARKET TO THE MAIN BOARD

6 November 2013

## PRINCIPAL BANKERS

China Merchants Bank, Shenzhen Chegongmiao Branch  
Block A, 1/F Tianxiang Building  
Tianan Chegongmiao Industrial District  
Futian, Shenzhen, PRC

China Construction Bank, Shenzhen Nanxin Branch  
1/F China Construction Bank Building  
No. 1 Guankou Road, Nanshan District  
Shenzhen, PRC

**HONG KONG LEGAL ADVISOR**

Tiang & Co.  
Room 2010, 20/F, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

**AUDITOR**

Deloitte Touche Tohmatsu  
Certified Public Accountants  
35/F One Pacific Place  
88 Queensway  
Hong Kong

**REGISTERED OFFICE IN CAYMAN ISLANDS**

PO Box 309  
Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

**PRINCIPAL PLACE OF BUSINESS AND  
ADDRESS OF HEADQUARTERS**

Cybio Electronic Building  
Langshan 2nd Street  
North Area of High-tech Park  
Nanshan District  
Shenzhen 518057, PRC

**PLACE OF BUSINESS IN HONG KONG**

**REGISTERED UNDER PART 16 OF  
THE HONG KONG COMPANIES ORDINANCE**  
31/F, 148 Electric Road  
North Point  
Hong Kong

**PRINCIPAL SHARE REGISTRAR AND  
TRANSFER OFFICE**

Maples Fund Services (Cayman) Limited  
PO Box 1093, Boundary Hall  
Cricket Square, Grand Cayman  
KY1-1102  
Cayman Islands

# FINANCIAL SUMMARY

## FINANCIAL SUMMARY

	Year ended 31 December		
	2016 RMB'000	2015 RMB'000	Change
Revenue	352,849	311,606	13.2%
Gross profit	276,534	252,576	9.5%
Profit before tax	186,950	26,396	608.3%
Profit for the year	145,710	4,025	3520.1%
Profit for the year attributable to owners of the Company	145,652	2,359	6074.3%
Earnings per share			
– Basic (RMB)	0.036	0.001	3500.0%
– Diluted (RMB)	0.036	0.001	3500.0%

## FIVE YEARS' FINANCIAL SUMMARY

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
<b>Revenue</b>	352,849	311,606	282,679	231,035	181,475
Profit (loss) for the year	145,710	4,025	(80,732)	(65,380)	32,862
<b>Assets</b>					
Non-current assets	518,075	400,940	178,411	155,070	84,018
Current assets	811,993	400,947	387,880	364,906	280,128
<b>Total assets</b>	1,330,068	801,887	566,291	519,976	364,146
<b>Liabilities</b>					
Current liabilities	221,117	121,188	65,513	77,478	44,489
Non-current liabilities	238,356	500,425	344,473	206,451	18,847
<b>Total liabilities</b>	459,473	621,613	409,986	283,929	63,336
<b>Total Equity</b>	870,595	180,274	156,305	236,047	300,810

# CHAIRMAN'S STATEMENT

Dear shareholders,

For and on behalf of the board (the "Board") of directors (the "Directors, each a "Director") of LifeTech Scientific Corporation (the "Company" or "Lifetech"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

We delivered solid results in the year ended 31 December 2016 despite of facing many challenges. Overall, we achieved some significant accomplishments during the year and we are confident of continuing our growth in the coming years.

## FINANCIAL REVIEW

I am proud to announce that the Group has achieved a continuing growth in sales for the year ended 31 December 2016. Revenue of the Group was approximately RMB352.8 million for the year ended 31 December 2016 in comparison with approximately RMB311.6 million for the corresponding period of 2015, representing a growth of approximately 13.2%. Gross profit was approximately RMB276.5 million for the year 2016 in comparison with approximately RMB252.6 million in 2015, representing a growth of approximately 9.5%. The increase in revenue was mainly attributable to the growth of sales volume of our primary products along with the expansion of our sales network, higher market penetration and increasing market share in the People's Republic of China ("PRC" or "China"). Net profit attributable to owners of the Company for the year ended 31 December 2016 was approximately RMB145.7 million as compared to the net profit amounting to approximately RMB2.4 million in 2015. The increase in net profit was mainly attributable to (i) the growth of sales and operating profit; and (ii) the gain on disposal of a subsidiary. The fair value and net exchange losses on Convertible Notes of the Group relating to the First Tranche Convertible Notes (as defined in the circular of the Company dated 6 January 2013) issued to Medtronic were approximately RMB110.4 million for the year ended 31 December 2016 in comparison with approximately RMB65.6 million for the corresponding period of 2015, representing a growth of approximately 68.3%. Considering that the fair value and net exchange losses of Convertible Notes are non-operating and non-cash flow items, excluding the influence arising therefrom, the Company would have recorded a net profit attributable to owners of the Company of approximately RMB256.1 million for 2016.

## OPERATION REVIEW

During the year ended 31 December 2016, the Group continued to promote the existing businesses of its major products including occluders, vena cava filter and stent graft, also the Group actively expanded its distribution network, in both the PRC and overseas markets. The domestic sales have been continuously increasing due to our constant marketing efforts and our enhanced brand name. The market leading position has been further strengthened through these efforts.

In 2016, our global sales network witnessed the broadened international image of our product, and we continued to strengthen our sales force and increase market penetration. We have participated in a number of domestic and overseas exhibitions to promote our products, especially our new product LAMBRE™ left atrial appendage ("LAA") occluder. Lifetech received the Conformité Européenne ("CE") certification approval of its LAA occluder system in June 2016 and became the only Chinese brand LAA closure product which had obtained such certification. Hospitals and patients benefited from the high quality and affordable price of our products. Meanwhile, we have conducted product training, launched promotion plan and collected feedback from doctors, which bring us more and more expert end-users recognition.

## CHAIRMAN'S STATEMENT

We have also achieved great breakthroughs in research and development field. We have obtained the CE certification of the GoldenFlow™ peripheral stent and the LAMBRE™ LAA occluder system in Europe, and obtained the China Food and Drug Administration (“CFDA”) certification of SteerHD™ delivery sheath certificate in China. The Group’s FemFlow™ Drug-Eluting Peripheral Balloon Catheter (“DEB”), IrisFIT™ patent foramen ovale (“PFO”) occluder, and HeartTone™ implantable pacemaker (“HeartTone™ pacemaker”) have passed the special review application of CFDA and been approved as an innovative medical devices. This shows that priority will be given to these products for their technical review and subsequent administrative approval, which will help accelerating their domestic registration procedure. At present, five products of the Company have been approved as innovative medical devices by the CFDA.

In 2016, we have continuously made good progress in our pacemaker project. With the support of Medtronic, the pacemaker product line has met the manufacturing qualification requirements.

Lifetech was awarded the “Best scientific and technological innovation listed company” in the sixth China Securities Golden Bauhinia Award. This award gives a high-level recognition of the innovation ability, scientific research ability and technology leading position as well as a recognition of our past performance, company management and development prospects in the international capital market. We will spare no effort in the independent innovation and development of the most cutting-edge cardiovascular intervention medical devices; continue to make our contributions to the development of global medical treatment, and bring ideal returns to our shareholders and investors.

## PROSPECTS

We believe that our success relies on and will continue to rely on our ability to develop new proprietary products. We will continue to allocate resources in researching and developing new cardiovascular and peripheral vascular products, new products related to cardiac pacing and electrophysiology and other implant products, including Ankura II Thoracic Aortic Aneurysm (“TAA”) stent grafts, iron-based bioresorbable drug-eluting coronary scaffold system and pacemaker.

Looking further ahead, the strategic alliance established between the Company and Medtronic for joint pacemaker project would be a critical stepping stone for Lifetech to enhance its market position in the PRC medical device market and to enter into a new segment of the industry, being the pacemakers market in the PRC. Lifetech had already completed the localization of high quality pacemakers through the pacemaker production lines built with assistance from Medtronic, which would help us to enter into a huge domestic market of pacemakers. We believe that the strategic cooperation between the Company and Medtronic will lead us to a bright future.

We will continue to evaluate and explore acquisitions, partnerships, alliances and licensing opportunities in 2017, so as to enhance our competitiveness and market position in current key markets as well as selective new markets.

## APPRECIATION

On behalf of the Board, I would like to offer my appreciation and gratitude to our shareholders, business associates, customers and suppliers for their ongoing support and confidence in the Group, especially to our colleagues for their dedication and effort, which is crucial to our success. With their commitments and contributions, another fruitful year has concluded. In the upcoming year, we will continue to work closely to create greater success for the Group and drive higher returns to the shareholders.

**XIE Yuehui**

Chairman and Chief Executive Officer

Hong Kong, 24 March 2017



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW

The Group is a developer, manufacturer and marketer of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. With the expansion of our product range, currently the Group has three main product lines, including structural heart diseases business, peripheral vascular diseases business and cardiac pacing and electrophysiology business. Structural heart diseases business mainly includes congenital heart diseases occluder, LAA occluder and heart valve. The peripheral vascular diseases business mainly includes vena cava filter and stent graft. The new product line cardiac pacing and electrophysiology is mainly related to pacemakers. These product lines provide clinically effective and commercially attractive product offerings.

We currently have distributors in numerous countries across Asia, Africa, North America, South America and Europe, with sales network spreading all over the world.

### Annual performances

Despite of the challenges of the uncertain global economic environment and more fierce worldwide competition within the medical devices industry, we were able to achieve solid results for our core businesses. China is still our largest market, and sales generated from the PRC market accounted for approximately 80.4% of our total revenue for the year ended 31 December 2016 (2015: approximately 76.9%). Our domestic sales maintained a steady growth of approximately 18.5% during the year ended 31 December 2016 as compared to the corresponding period in 2015, indicating our stronger brand image and greater market share in China. Our international markets recorded approximately a 4.3% decrease in sales revenue for the year ended 31 December 2016 as compared to the corresponding period in 2015, which was mainly due to almost no sales revenue generated from the CeraFlex™ product in Europe as we terminated the exclusive distribution rights of Medtronic for CeraFlex™ occluders in selected countries in Europe and the Middle East.

### Pacemaker project

HeartTone™ pacemaker, as set out in a series of agreements entered into between the Group and Medtronic, Inc. or its affiliates (“Medtronic”) on 25 July 2014 (the “New Transaction Agreements”), will be manufactured and commercialised under the Company’s brand with help and guidance from Medtronic. In 2016, we have been continuously making good progress in our pacemaker project. The pacemaker product line has met the manufacturing qualification requirements with the support from Medtronic. In August 2016, the HeartTone™ pacemaker was approved as an innovative medical device by the CFDA in accordance with the CFDA’s Procedures for Special Approval of Innovative Medical Devices (Trial) No. 13 (2014). The animal study was completed in January 2017.

## Research and development (“R&D”)

In 2016 we have made the following achievements in R&D field:

- In February 2016, the GoldenFlow™ peripheral stent was granted with the CE certification in Europe.
- In June 2016, the LAmbre™ LAA occluder system was granted with the CE certification approval in Europe, which made it the only LAA closure product of a Chinese brand with such certification.
- The SteerHD™ delivery sheath has obtained its registration certificate in China.
- The FemFlow™ DEB, the HeartTone™ pacemaker and the IrisFIT™ PFO occluder have been approved as innovative medical devices.
- Iliac Bifurcation Stent Graft System was still at the stage of clinical trial.

## Marketing activity

In 2016, we were continuously strengthening the distribution system by choosing quality distributors, and we also promoted our products by expanding our activities in tradeshow marketing and sales network coverage. Below are marketing activities highlights of 2016:

- From 3 to 5 March 2016, Pediatric and Adult Interventional Cardiac Symposium (“PICS-AICS”) and Catheter Interventions in Congenital, Structural and Valvular Heart Disease (“CSI”) jointly organised the conference named “PICS CSI Asia 2016” in Dubai, UAE. Lifetech was invited to attend the conference as one of major sponsors. In the conference, Lifetech held a satellite symposium with the topic of “Congenital Heart Disease Occlusion Experiences Sharing and Discussion”, and invited famous experts in the field to share their practice in applying congenital heart disease treatment devices and clinical trial experience of our products. Lecturers and experts recognised the clinical application advantages of innovative products independently developed by Lifetech, shared their experience of using CeraFlex™ occluders with other users from all over the world, and had an indepth discussion on clinical applicability and related topics.
- In April 2016, Lifetech cooperated with experts on congenital cardiovascular diseases from the People’s Hospital of Tibet Autonomous Region and West China Second University Hospital of Sichuan University, to perform voluntary screening of congenital heart diseases on children in Naqu County, Tibet. During the activity which lasted for several weeks, the team had performed the screening on more than 3,600 children, completed more than 320 ultrasonic tests and diagnosed 45 patients with congenital heart diseases. In December 2016, the first 31 patients with congenital heart diseases received our treatment and were successfully cured.

## MANAGEMENT DISCUSSION AND ANALYSIS

- In 2016, as a leading enterprise in cardiovascular minimally invasive interventional medical device field, Lifetech was invited to a number of international forums such as, the 7<sup>th</sup> Asia Pacific Congenital and Structural Heart Intervention Symposium 2016 (“APCASH”) held in Hong Kong, Global Left Atrial Appendage Occlusion Summit 2016 held in Leipzig Germany, Transcatheter Cardiovascular Therapeutics “TCT2016” held in Washington and LAA CSI Focus 2016 held in Frankfurt, Germany to show the outstanding product design characteristics and the clinical application of excellent performance of LAMBRE™ LAA occluder which manifested the rich capability of independent innovation of the company. With the successful launch of LAMBRE™ LAA occluder in the European Union, we are looking forward to provide safer and more effective clinical solutions, benefiting more patients with the convenience of technology in the future.
- From 3 to 6 November 2016, the 9<sup>th</sup> China Endovascular Conference (“CEC 2016”) was held in Beijing. Lifetech held many academic activities during the conference, showed the innovation strength in cardiovascular interventional treatment cavity field and product superiority of Lifetech according the high-end academic platform as well as discussed and communicated about the clinical experience and technological development with the cardiovascular specialists. The CEC 2016 showcased Ankura™ stent graft system, Fustar™ steerable introducer, Aegisy™ vena cava filter and the iliac artery bifurcation stent graft system. Five famous experts in the industry were invited as guest speakers who made speeches about the clinical usage insight and intraoperative advantage of the Ankura™ stent graft system, the iliac artery and bifurcation stent graft system and other products which were researched and developed independently by Lifetech.
- Lifetech Knowledge Exchange Program (“LKEP”) continued to promote the spread of cutting-edge science in minimally invasive surgery with cardiovascular intervention aiming to improve the treatment skills of the doctors and thereby to allow more patients to receive safer and more effective treatment. As at 31 December 2016, Lifetech held 37 LKEP academic exchange programs in China, Greece, Turkey, Russia, Kazakhstan, Indonesia, Thailand and other countries, involving over 200 experts from different countries. After four years of development, LKEP becomes a bridge which connects the cardiovascular specialists around the world. The LKEP will help experts from around the world to break geographical, cultural and language barriers, discuss and exchange precious medical experience and clinical skills on the topic of cardiovascular minimally invasive interventional medical technology, learn from each other, make progress together and build friendships. More meaningfully, not only more Chinese experts got on the world arena, but LKEP also convinced foreign experts that cardiovascular minimally invasive interventional medical technology developed in China market is rapidly advancing towards the world frontier and reaching internationally leading levels.

## PATENTS AND BRANDING

In 2016, we filed 191 patent applications, including 108 applications in the PRC and 42 applications overseas, such as the European Union, United States, India, Australia, Korea and Japan and 41 applications in Patent Cooperation Treaty (“PCT”).

In addition, 40 patents were approved during the year of 2016. As at 31 December 2016, we have filed a total of 486 patent applications.

## FINANCIAL REVIEW

### Overview

The Company has maintained a steady growth for the year ended 31 December 2016.

### Revenue

Our revenue was approximately RMB352.8 million for the year ended 31 December 2016, with an increase of approximately RMB41.2 million or approximately 13.2% as compared to the revenue for the year ended 31 December 2015. The growth in revenue was mainly attributable to the increase of revenue from the peripheral vascular diseases business.

### Revenue from structural heart diseases business

The turnover contributed by the structural heart diseases business for the year ended 31 December 2016 was approximately RMB124.5 million (2015: approximately RMB142.6 million), representing a decrease of approximately 12.7%.

With the diversification of product portfolio, our products cover a wide spectrum of the structural heart diseases business, which include three generations of congenital heart occluders named HeartR, Cera and CereFlex, as well as heart valve and new product named LAA occluder.

The revenue generated from the congenital heart occluders for the year ended 31 December 2016 was approximately RMB120.0 million (corresponding period in 2015: approximately RMB142.4 million), representing a decrease of approximately 15.7%. As compared to the corresponding period of 2015, the revenue generated from the sales of HeartR devices decreased by approximately 13.4%, Cera devices increased by approximately 4.9% and CereFlex devices decreased by approximately 33.5% for the year ended 31 December 2016.

We launched our new product LAMBRE™ LAA occluder in the European market after obtaining the CE certification in June 2016. The revenue generated from the sales of LAMBRE™ LAA occluder was approximately RMB3.2 million for the year ended 31 December 2016 (2015: Nil).

As compared to the corresponding period of 2015, the revenue generated from the sales of heart valve increased by approximately 234.3% for the year ended 31 December 2016.

### Revenue from peripheral vascular diseases business

The turnover contributed by the peripheral vascular diseases business for the year ended 31 December 2016 was approximately RMB228.4 million (2015: approximately RMB169.0 million), representing a growth of approximately 35.1%.

The products we offered in the peripheral vascular diseases business included vena cava filter, TAA and Abdominal Aortic Aneurysm (“AAA”) stent grafts, vascular plug and Fustar™ steerable introducer. The vena cava filter experienced approximately 22.1% sales revenue growth for the year ended 31 December 2016 as compared to the corresponding period of 2015. Our stent grafts achieved a growth of approximately 45.5% during the year ended 31 December 2016.

Currently, the new product from cardiac pacing and electrophysiology business has not yet been launched in the market.

### Gross profit and gross profit margin

As a result of the increased sales and diversity of our products, gross profit of the Group increased by approximately 9.5% from approximately RMB252.6 million for the year ended 31 December 2015 to approximately RMB276.5 million for the year ended 31 December 2016. Gross profit margin decreased by 2.7% from approximately 81.1% for the year ended 31 December 2015 to approximately 78.4% for the year ended 31 December 2016.

### Selling and distribution expenses

Selling and distribution expenses increased by 10.9% from approximately RMB73.6 million for the year ended 31 December 2015 to approximately RMB81.6 million for the year ended 31 December 2016. The increase was primarily due to (i) an increase of marketing expenses; and (ii) an increase of royalty fee paid and payable to Medtronic.

### Administration expenses

Administration expenses increased by 8.4% from approximately RMB47.6 million for the year ended 31 December 2015 to approximately RMB51.6 million for the year ended 31 December 2016. The increase was primarily due to the increase of staff costs.

### Research and development expenses

Research and development expenses increased by 21.8% from approximately RMB47.2 million for the year ended 31 December 2015 to approximately RMB57.5 million for the year ended 31 December 2016. The increase was primarily due to (i) an increase of developing projects expenditure; and (ii) an increase of salary, bonus and related expenses for staff in research and development department.

### Operating profit

Operating profit increased by approximately 14.6% from approximately RMB94.5 million for the year ended 31 December 2015 to approximately RMB108.3 million for the year ended 31 December 2016. The increase was primarily due to (i) the growth of sales; and (ii) the increase of income recognition of government grants and consulting service income.

### Share of results of associates

The Group's 49% equity interest in Enke Medical Technology Co., Ltd. ("Enke Medical") had been accounted as interest in an associate. The Group's share of loss in Enke Medical was approximately RMB0.5 million for the year ended 31 December 2016 (2015: share of gain of approximately RMB0.1 million).

### Fair value and net exchange losses on Convertible Notes

During the year ended 31 December 2016, the fair value and net exchange losses on Convertible Notes were approximately RMB110.4 million, representing an increase of approximately 68.3% as compared with the corresponding period in 2015. The fair value on Convertible Notes was determined by reference to valuation report carried out by an independent qualified professional valuer.

### Finance income and finance costs

The Company earned an interest income of approximately RMB1.7 million for the year ended 31 December 2016 as compared to approximately RMB1.8 million for the corresponding period in 2015.

The finance cost representing effective interest expenses arising from the convertible notes issued to Medtronic was approximately RMB16.0 million for the year ended 31 December 2016, representing an increase of approximately 20.3% as compared with the corresponding period in 2015. Finance cost pursuant to the liability component of the convertible notes is carried at amortised cost using the effective interest method.

### Income tax

Income tax increased from approximately RMB22.4 million for the year ended 31 December 2015 to approximately RMB41.2 million for the year ended 31 December 2016. The increase in the Company's income tax was primarily due to (i) the increase of profit before tax of the PRC subsidiaries, resulting from the growth of sales; and (ii) the increase of income tax for the gain on disposal of a subsidiary.

### Net profit

Net profit attributable to owners of the Company for the year ended 31 December 2016 was approximately RMB145.7 million (corresponding period in 2015: net profit of approximately RMB2.4 million). The significant increase in net profit was mainly attributable to (i) the increase of sales and operating profit; (ii) the gain on disposal of 100% interest in Beijing PerMed Biomedical Engineering Co., Ltd., a wholly-owned subsidiary of the Group (for further details, please refer to the section titled "Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures" below).

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

In 2016, the Group mainly financed its operations with its own working capital, bank loan and equity funding.

The Group recorded total current assets of approximately RMB812.0 million as at 31 December 2016 (2015: approximately RMB400.9 million) and total current liabilities of approximately RMB221.1 million as at 31 December 2016 (2015: approximately RMB121.2 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 3.67 as at 31 December 2016 (2015: approximately 3.31).

### BORROWINGS

On 8 June 2015, Lifetech Scientific (Shenzhen) Co., Ltd. (“Lifetech Shenzhen” or the “Borrower”), being one of our key operating subsidiaries in the PRC, and China Construction Bank Co., Ltd. Shenzhen branch (the “Lender”) entered into the loan agreement (the “Loan Agreement”) and pledge agreement (the “Pledge Agreement”), pursuant to which the Lender agreed to lend the loan amount of RMB200 million (equivalent to approximately HK\$253.6 million) to Lifetech Shenzhen, with interest rate of the benchmark interest rate commencing on the day the loan money is drawn from the bank and adjusted 10% below to 60% rise benchmark interest rate, for a term of five years subject to the terms and conditions under the Loan Agreement. Under the Loan Agreement, Lifetech Shenzhen had pledged its land use right held for own use with a net book value of approximately RMB33.3 million as at 31 December 2016 and headquarters building which is in the process of construction for the purpose of securing the bank borrowing. The mortgage procedure of the land use right was completed in August 2015 and the building mortgage application will be made upon completion of the construction. As at 31 December 2016, the bank borrowing was RMB200.0 million (2015: approximately RMB48.0 million) and the interest incurred therefrom was approximately RMB8.0 million in 2016 (corresponding period in 2015: approximately RMB0.4 million).

### CAPITAL STRUCTURE AND GEARING RATIO

Total equity attributable to equity holders of the Company amounted to approximately RMB867.6 million as at 31 December 2016 as compared to approximately RMB180.3 million as at 31 December 2015. As at 31 December 2016, the gearing ratio (calculated as a ratio of total borrowing consisting of convertible notes and bank borrowings to total equity) of the Group was approximately 23.0% (31 December 2015: approximately 80.6%). Such changes were primarily due to (i) the increase of cash on disposal of Beijing PerMed; and (ii) the conversion of the Convertible Notes.

## BUILDING CONSTRUCTION

On 19 December 2014, Lifetech Shenzhen entered into the construction contract (the “Original Construction Contract”) with the China Construction Fourth Engineering Division – Third Construction & Engineering Co. (中建四局第三建筑工程有限公司) (the “Contractor”) pursuant to which the Contractor has agreed to undertake the construction work for the Company at an agreed contract price. For further details, please refer to the announcements of the Company dated 19 December 2014 and 29 October 2015, the circular of the Company dated 21 April 2015 and the poll results announcement of the Company dated 7 May 2015. As at 31 December 2016, the construction of the main building was completed. As at the date of this annual report, the building is in the process of decoration.

## SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, there were no significant investments held by the Company for the year ended 31 December 2016, nor was there any plan authorized by the Board for other material investments or additions of capital assets as at the date of this annual report.

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 30 November 2016, the Company entered into a sale and purchase agreement with an independent third party (the “Purchaser”), pursuant to which the Company agreed to dispose all of its 100% equity interests held in Beijing PerMed Biomedical Engineering Co., Ltd. (北京市普惠生物醫學工程有限公司) (“Beijing PerMed”), which was a wholly owned subsidiary of the Company before completion of the disposal, to the Purchaser at a cash consideration of USD31,000,000 (approximately equivalent to RMB213,482,000) (the “Disposal”). Upon completion of the Disposal, the Group no longer has any ownership and management control over Beijing PerMed. Further details are set out in Note 33 to the consolidated financial statements in this annual report.

Save as disclosed in this annual report, there were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2016.

## UPDATE ON PENDING LITIGATION IN INDIA AND IMPACT ON OUR CONTINGENT LIABILITIES

The Group is currently involved in a lawsuit issue in India. AGA Medical Corporation (“AGA”) has filed a suit with the High Court of New Delhi (the “Court”) against our companies, alleging that our occluders sold in India infringed its patent. For details, please refer to the section headed “Risk Factors – Risk Related to Intellectual Property Rights” in the prospectus of the Company dated 31 October 2011. As at the date of this annual report, the cross-examinations of all the witnesses of AGA and of the Group were completed and the final arguments were still pending to be presented.

After seeking legal advice, the Board is of the opinion that it is very unlikely that the Court will grant a permanent injunction to the plaintiff and it is also very unlikely for the Court to award damages to the plaintiff or direct delivery of infringing devices. Accordingly, the Board considers that no provision is necessary for any potential liability in the consolidated financial statements. Further details are set out in Note 38 to the consolidated financial statements in this annual report.

Save as disclosed in this annual report, the Group did not have any other contingent liabilities as of 31 December 2016.



### FINANCIAL INSTRUMENT

On 30 January 2013, the Company issued HK\$152,000,000 unsecured 1% convertible notes which are due in 2018 (the “Convertible Notes”) to Medtronic. The Convertible Notes bear interest at 1% per annum and will mature on 29 January 2018 (the “Maturity Date”). The holder of the Convertible Notes has the right to convert the principal amount of Convertible Notes into shares of the Company at an initial conversion price of HK\$3.8 per share. The initial conversion price was adjusted to HK\$0.475 per share upon the share subdivision of the Company effective on 12 January 2015. For further details, please refer to the announcement of the Company dated 5 December 2014, the circular of the Company dated 22 December 2014 and the announcement of the Company dated 9 January 2015. The Company may not redeem the Convertible Notes at its option prior to the Maturity Date. The noteholder will have the right at noteholder’s option, to require the Company to redeem all, or only some, of the Convertible Notes prior to the Maturity Date at a price equal to their principal amount and interest accrued to the date fixed for redemption subject to the occurrence of specific events as defined in the terms and conditions of the Convertible Notes Agreement.

On 22 December 2016, the Company received a written notice from Medtronic for the exercise of the conversion rights attaching to the first tranche of the Convertible Notes in the principal amount of HK\$152,000,000 at the conversion price of HK\$0.475 per Share. On 29 December 2016, the Convertible Notes were fully converted into 320,000,000 shares. For details, please refer to the announcement of the Company dated 22 December 2016 and the Note 27 to the consolidated financial statement in this annual report.

As at 31 December 2016, save as disclosed above, the Group did not have any outstanding hedge contracts or financial derivative instruments.

### CAPITAL EXPENDITURE

For the year ended 31 December 2016, the capital expenditure of the Group for property, plant and equipment (the “PPE”), construction in progress, intangible assets, prepaid lease payments and deposits for PPE amounted to approximately RMB120.6 million (31 December 2015: approximately RMB246.0 million).

### FOREIGN EXCHANGE RISK

During the year ended 31 December 2016, the Group’s operations were primarily based in the PRC and India. The revenue derived from India accounted for approximately 6.3% (2015: approximately 6.9%) of the total revenue of the Group. The financial statements of Lifetech Scientific India Private Limited, our sole subsidiary in India are presented in Renminbi, and in the Group a portion of the revenue and expenses are denominated in US Dollars and Euro. In addition, the Convertible Notes issued by the Company were in HK Dollars and were exchanged into Renminbi. As there were currency fluctuations among Indian Rupees, HK Dollars, US Dollars and Euro during the year, and the Group’s operational results and financial condition may be affected by changes in the exchange rates of Renminbi against India Rupees, HK Dollars, US Dollars and Euro. To minimize exposure to foreign exchange risk, most of the bank deposits of the Group are being kept in Renminbi. The Directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the year. Further discussion on our financial risk management objectives and policies is included in the section headed “Financial risk management objectives and policies” in Note 6(b) to the consolidated financial statements in this annual report.

### CHARGES ON GROUP ASSETS

As at 31 December 2016, the Group had, under the Loan Agreement, pledged its land use right held for own use with a net book value of approximately RMB33.3 million and headquarters building in Shenzhen which is in the process of construction for the purpose of securing the bank borrowing.

Save as disclosed above, the Group did not have any charges on its assets.

### CAPITAL COMMITMENT

As at 31 December 2016, the Group's capital expenditure contracted for but not provided in the consolidated financial statements amounted to approximately RMB54.1 million (2015: approximately RMB132.5 million).

### SEGMENT INFORMATION

During the year, the revenue of the Group was principally generated from: (i) structural heart diseases business; (ii) peripheral vascular diseases business; and (iii) cardiac pacing and electrophysiology business. Financial information related to these aspects is presented in Note 7 to the consolidated financial statements in this annual report.

### EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had 596 (2015: 557) full time employees and three executive Directors (2015: two). Total staff costs, including Directors' emoluments, amounted to approximately RMB101.1 million for the year 2016 (2015: approximately RMB93.0 million). In respect of retirement benefit scheme, the defined contribution plan is adopted by the Group. In 2016, the amount of contributions to retirement benefits scheme was approximately RMB 8.0 million (2015: approximately RMB6.7 million). Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may not be used by the Group to reduce the existing level of contributions.

The Group's remuneration policies were determined by the performance, qualification and working experience of individual employee, as well as the results of the Group and the market conditions. The benefits provided by the Group to its employees include discretionary bonus, transportation and lunch subsidies, basic medical insurance, work injury insurance, unemployment insurance, team commercial accident insurance, team commercial medical insurance and share options to the employees. Discretionary bonus is linked to the performance of the Group as well as individual performance. A share option scheme (the "Share Option Scheme") was adopted for employees of the Group on 22 October 2011 which was subsequently amended by a unanimous written resolutions of the Board on 5 May 2015. In order to ensure that the Group's employees remain competitive in the industry, the Group also arranges training for its staff to enhance their skills and knowledge.

"Innovation, Cooperation, Responsibility, Execution and Recognition" are the essence of corporate culture of Lifetech. Lifetech considers its employees the key to sustainable business growth. We are committed to providing all employees with safe and harassment-free working environment with equal employment opportunities, reward management, training and career development. Workplace safety is a priority of the Company that, with due awareness of all employees throughout the year, the Company was able to maintain

## MANAGEMENT DISCUSSION AND ANALYSIS

a high standard of health and safety measures in all company activities. The holding of outward bound training and kinds of sports activities strengthened the effective communication and cooperation between colleagues. We have a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver their best performance and achieve business performance targets. For talent acquisition and continuous development, the Company offers graduate trainee programs as well as leadership and talent development programs for fresh talent with different academic backgrounds. Furthermore, to improve employees' health awareness, the Company arranges annual physical examination, in addition to the social insurance, the Company also purchases some commercial insurances, including the personal accident insurance and medical supplementary insurance.

The Company believes that direct and effective communication is essential to build up a good relationship between management and employees. Workers congress is one of the important ways of communication. In addition to newsletters and communications through the intranet and suggestion box, the Company holds regular meetings and forums to brief employees on Company's development and to obtain their feedback and suggestions.

### FUTURE PROSPECTS

The Group will continue to increase the revenue in the year 2017 by relying on its two core businesses, namely structural heart diseases business and peripheral vascular diseases business.

We also believe that the revolutionary LAmbre™ LAA occluder will strengthen our leading position in the field of structural heart diseases business. Our LAmbre™ LAA occluder is experiencing more and more extensive penetration in the market. Furthermore, LAmbre™ LAA occluder has been approved as innovative medical devices by the CFDA, which will help accelerating its domestic registration procedure.

We will further develop and improve the performance and manufacturing craft of our existing products. We have extensive R&D activities aimed at developing new generation of our existing products and new products.

We will continue establishing a positive image of the Lifetech brand through a series of academic activities and further expanding our market share by focusing on further diversification of our product pipeline and smooth integration of domestic and overseas market resources. We believe that we are capable of expanding our business and achieving revenue growth in China, Europe and other international markets.

With the management team's vision and mission and the efforts of loyal employees, the management of the Group is confident that we are competent to meet the challenges and to grasp the opportunities in the forthcoming years. We are well equipped and are ready to mark another milestone.

## STRATEGIC COOPERATION WITH MEDTRONIC

To expand the alliance to include pacemaker and cardiac lead products to be manufactured and commercialised for the PRC market, The Group had entered into the New Transaction Agreements on 25 July 2014.

The Board believes that such expansion of the Company's strategic alliance with Medtronic will enable the Company to achieve synergies in collaboration with Medtronic and to become a world-class leading medical device player. Medtronic, being a globally recognized and well-regarded market player in the medical device industry, will bring in technical, operational and management expertise with a view to improving the internal system, business operation, research and development, production and sales operation of the Company; while the Company will benefit from the cutting edge industry expertise of Medtronic for product development and brand-building. As such, the entering into of the New Transaction Agreements is in line with the long-established goal of the Group to commercialize the pacemaker and the lead products under its own name and thus enters into the PRC pacemaker market to seize market share.

In collaborating with leading clinicians, researchers and scientists, Medtronic offers a wide range of innovative medical technology for the interventional and surgical treatment of cardiovascular disease and cardiac arrhythmias. The Company will continue its commitment to offering products and services that deliver clinical and economic value to healthcare consumers and providers worldwide.

## ENVIRONMENT AND SUSTAINABILITY

We are committed to creating a successful business that is not achieved at the expense of the environment. The Company is dedicated to creating an environmentally friendly and sustainable operation. Our biggest environmental impact is created within our properties and manufacturing facilities, and through the use of raw materials, electricity, gas, paper, and waste generation. We therefore invest in the latest technology to reduce our carbon emissions through energy efficient equipment. Internally, we are proactive in addressing our waste and recycling issues.

For further details and related data analysis on the environmental, social performance of the Group, please refer to our 2016 Environmental, Social and Governance Report which will be published as a separate report.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### EXECUTIVE DIRECTORS

**XIE Yuehui (謝粵輝)**, aged 47, is our chairman, Chief Executive Officer and our executive Director. Mr. Xie has served as the director of Lifetech Shenzhen since October 2000 and was promoted to serve as the chairman of Lifetech Shenzhen since 2005. Mr. XIE is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Mr. XIE has about 26 years of experience in business management in the PRC, including over 14 years in the medical device industry. In June 2015, Mr. XIE was appointed as representative of the Sixth Shenzhen Municipal People's Congress. From 1991 to 1993, Mr. XIE served as the project manager of Eastern Tantalum Group (東方鈮業集團). From June 1993 to January 1994, Mr. XIE was the investment manager at a subsidiary of China Southern Securities (南方證券), and was responsible for project investment. From February 1994 to February 1996, Mr. XIE held the position of the deputy general manager at an investment branch of Bank of China, Jilin Province, and was responsible for managing futures investment projects. From February 1996 to December 1998, Mr. XIE served as the manager at the domestic trade department of Shenzhen Huihua Group (深圳市匯華集團), and was responsible for overall trade management. Since June 1998, Mr. XIE was a general manager at Shenzhen Huishibang Technology Company Limited (深圳市匯世邦科技有限公司) and was promoted to the chairman in 2000. During this time, Mr. XIE was responsible for overall business management. Mr. XIE graduated from Kunming Institute of Technology (昆明工學院) in July 1991 with a bachelor's degree in materials specialising in pressurized processing of metals (金屬壓力加工專業). He also obtained a master's degree in Business Administration from Tsinghua University in July 2006.

**LIU Jianxiong (劉劍雄)**, aged 46, is the Chief Financial Officer ("CFO") and Company Secretary of our Group. He was appointed as a non-executive Director on 2 March 2015 and was subsequently re-designated as an executive Director with effect from 27 March 2015. Mr. LIU joined us in September 2010. Mr. LIU has about 24 years of experience in the accounting field. He started his career as an auditor at Kwan Wong Tan & Fong (currently Deloitte Touche Tohmatsu) in 1993, and was primarily responsible for carrying out audits and consultancy work. Mr. LIU then continued to work with a number of multinational companies. From 1997 to 2001, he was the accounting services manager of Yantian International Container Terminal Company Limited (鹽田國際集裝箱碼頭有限公司). From 2001 to 2003, Mr. LIU was the financial controller of Shenzhen Schlumberger Electronic System Solution Co., Ltd (深圳斯倫具謝電子系統有限公司). From March 2007 to July 2007, Mr. LIU was the China financial controller of the China Light & Power Group renewable energy division. From December 2007 to February 2010, Mr. LIU was the Great China corporate controller of AnyDATA Group, and was responsible for financial management, accounts audit, tax planning, raising capital and preparation of financial accounts in accordance with accounting standards in PRC, U.S. and Hong Kong. He has been a member of the Association of Chartered Certified Accountants since 1997 and a registered tax agent since 1999. Mr. LIU graduated from Zhongshan University's faculty of physics with a major in modern physics technology in July 1990. He obtained a master's degree in business administration from University of Glamorgan in the United Kingdom in December 2004.

**XIAO Ying (肖穎)**, aged 41, was appointed as an executive Director on 28 March 2016. Ms. XIAO is the chief compliance officer and the human resources director of the Group, taking charge of the Group's legal and compliance controls, information technology management and human resources affairs. Ms. XIAO joined our Group in April 2011 as financial manager and information technology manager. In February 2015, she was promoted to chief compliance officer. In January 2016, Ms. XIAO was appointed as the Group's human resources director. Ms. XIAO has more than 18 years' management experience in financial accounting, financial analysis, budget planning and internal controlling. Prior to joining the Group, Ms. XIAO had served in several famous multinational companies including Shenzhen Mindray Bio-Medical Electronics Co., Ltd.\* (深圳邁瑞生物醫療電子股份有限公司), Kingdee Software (China) Co., Ltd.\* (金蝶軟件(中國)有限公司) and Shenzhen GKI Electronics Co., Ltd.\* (長科國際電子有限公司), a joint venture entity of International Business Machines Corporation (IBM). Ms. XIAO obtained professional accountant qualification in middle level in 2005 from the Ministry of Finance of the People's Republic of China. She graduated from Shanghai University of Finance & Economics in June 1998 with a bachelor degree in Accounting with minor in Finance and Security.

#### NON-EXECUTIVE DIRECTORS

**CLEARY Christopher Michael**, aged 56, was appointed as a non-executive Director on 27 August 2015. Mr. CLEARY has over 20 years of experience in capital market investment, merger and acquisitions, corporate management and business development. He is currently the Vice President of Corporate Development at Medtronic plc. ("Medtronic"), a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) of the Company. Prior to joining Medtronic, Mr. CLEARY worked at Alesia Capital Services LLC from 2011 to 2014 providing advisory and financial analysis services to Fortune 500 companies including Medtronic. From 1995 to 2011, Mr. CLEARY worked at GE Capital Corporation ("GE Capital") leading merger & acquisition teams that closed acquisitions across more than 200 global transactions. Mr. CLEARY received the GE Capital Chairman's Award for M&A excellence in 2005, and was a member of the General Electric Business Development Senior Leadership Council. Mr. CLEARY holds a bachelor degree in Biology from The Colorado College.

**MONAGHAN Shawn Del**, aged 55, was appointed as a non-executive Director on 27 March 2015 and currently serves as the Vice President of Business Development and Strategy for Cardiac Rhythm and Heart Failure (CRHF) business of Medtronic. In this role, he is also the CRHF liaison for the Medtronic/Lifetech joint venture in Shenzhen, China. Mr. MONAGHAN has been with Medtronic for 25 years in a variety of finance, marketing, strategy and sales management roles. For Medtronic, he has worked and lived in both Europe and Asia. Prior to joining Medtronic, Mr. MONAGHAN worked as a management consultant in Deloitte Touche Tohmatsu and as a senior auditor in Arthur Andersen & Company. Mr. MONAGHAN received his bachelor's degree of Science in Accounting and Business from the University of Kansas in 1983 and obtained his master's degree in Business Administration from the University of Chicago in 1988.

**JIANG Feng (姜峰)**, aged 54, was appointed as a non-executive Director on 1 April 2014. Mr. JIANG is currently vice president of China Association for Medical Devices Industry, chairman of China Strategic Alliance of Medical Devices Innovation, deputy director of Biomedical Engineering Education Steering Committee of the Ministry of Education (教育部生物醫學工程專業教育指導委員會), executive director of China Instrument and Control Society and chairman of its medical devices branch, executive director of Chinese Society of Biomedical Engineering, Chinese Society for Biomaterials and China Association for Disaster & Emergency Rescue Medicine, researcher of Zhejiang University and director of Biomedical Technology Assessment Centre of Zhejiang University (浙江大學生物醫學技術評估中心) and president of the magazine China Medical Device Information. Mr. JIANG is an independent non-executive director of Guangdong Biolight Meditech Co., Ltd., Grandhope Biotech Co., Ltd and Zhejiang Tiansong Medical Instrument Co., Ltd, all companies being listed on the Shenzhen Stock Exchange. Mr. JIANG had been working as a clinician for 12 years before he left the hospital in 1997 to establish his own business. For his outstanding achievements, Mr. JIANG was considered to be special talent by SASAC and was chosen to be a leader of national large medicine and device companies for a long term, including as chairman and general manager of China National Pharmaceutical Group Corporation North West Company and China National Medical Equipment Co., Ltd.. During that period he was in charge of or participated in restructuring, mergers and acquisitions and transformation for listing of nearly 40 relevant companies. Mr. JIANG had been serving as general manager of China National Medical Equipment Co., Ltd for 9 years, during which he accomplished the substantial transformation of the enterprise from exhibition business to production and operation of device by establishing China's first Sino-foreign joint venture medical device distribution company and making it the largest domestic medical device distributor within 5 years. He had been president and standing vice president of China Association for Medical Devices Industry for 12 years, during which he visited and evaluated over a thousand of member enterprises. For around 5 years while being a chairman of China Strategic Alliance of Medical Devices Innovation, he assisted the science and technology department and local science and technology bureaus in assessing subjects of hundreds of medical device projects and conducting subsequent management, which involved 863 Program and supporting projects worth more than RMB1 billion in total. Benefiting from his long term work in the industry, Mr. JIANG is expert at the operation and management of medical companies and understands development trend of the industry, in particular, he has made experience in industrial innovation and international marketing. Since December 2010, Mr. JIANG was appointed as an independent non-executive director of Changchun Dirui Medical Technology Co., Ltd. (長春迪瑞醫療科技股份有限公司). Since 8 November 2016, Mr. JIANG was appointed as an independent non-executive director of Hangzhou Kangji Medical Instrument Co., Ltd. for a term of three years. Mr. JIANG graduated from the Fourth Military Medical University with a bachelor degree in medicine in 1985 and received his doctoral degree of clinical surgery in 1995 from the Fourth Military Medical University. He obtained an EMBA degree from Tsinghua University in 2007.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**LIANG Hsien Tse Joseph (梁顯治)**, aged 62, was appointed as an independent non-executive Director with effect from 22 October 2011. Mr. LIANG has extensive experience in finance and accounting. From November 1993 to August 2001, Mr. LIANG served as the finance manager at Hong Kong International Terminals Limited for Yantian International Container Terminals, both being container terminal companies managed by the Hutchison Port Holdings Trust. From August 2001 to October 2005, Mr. LIANG held various positions at Skyworth Digital Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 751), including the group's financial controller and company secretary in charge of finance and MIS functions of the Group. From October 2005 to December 2008, Mr. LIANG was a director at Shenzhen Alclear Consulting Limited, a company engaging in financial, corporate management and investment consultancy services, and was responsible for developing accounting training in China. From October 2009 to September 2011, Mr. LIANG was the managing director of the financial planning and development department at United International College in Zhuhai, PRC, and was responsible for serving financial advisory and human resources management functions. From October 2011 to September 2012, Mr. LIANG served as special consultant on campus development at the College. He was the executive vice president of Finance of TWS Industrial (Holdings) Ltd. since October 2011, a private company engaged in battery production. He later worked as consultant in it from August 2013 to December 2013. He returned to full time teaching as an associate professor at UIC in September 2013. Mr. LIANG graduated from Hong Kong Open University with a bachelor's degree in language and translation in December 2007. Mr. LIANG obtained a master's degree in professional accounting from University of Texas, Austin in May 1981 and a diploma in business management from Hong Kong Baptist College in December 1977. Mr. LIANG has been a member of the Texas Society of Certified Public Accountants, Hong Kong Institute of Certified Public Accountants (formerly known as "Hong Kong Society of Accountants") since June 1982 and Association of Certified Chartered Accountants (ACCA) since May 1982. On 19 February 2013, Mr. LIANG was appointed as an independent non-executive director of North Asia Strategic Holding Limited, a company listed on GEM (Stock Code: 8080) for a term of three years. He was reappointed as independent non-executive director of North Asia Strategic Holding Limited for another three years commencing 19 February 2016. Mr. LIANG was also appointed on 6 June 2014 for a one year term as an independent non-executive director of China Animal Healthcare Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 940). On 26 June 2015, Mr. LIANG ceased to be an independent non-executive director of China Animal Healthcare Limited.

**WANG Wansong (王皖松)**, aged 47, was appointed as an independent non-executive Director on 29 January 2016. Mr. WANG has an extensive experience in plans establishment, and policies formulation and implementation for the High-Tech industrial development and construction in Shenzhen, as well as in technological innovation, achievements transformation, and projects implementation and co-ordination for high-tech bio-pharmaceutical industry and medical device industry. He is currently working as a senior researcher at the State High-Tech Industrial Innovation Center in Shenzhen (深圳市國家高技術產業創新中心). Prior to that, from 1997 to 2014, Mr. WANG worked at National Development and Reform Commission, Shenzhen City (深圳發展改革委員會). Prior to that, Mr. WANG worked in Shenzhen Xinhayu Marine Environmental Technology Engineering Co., Ltd.\* (深圳新華宇海洋環境技術工程公司) from 1992 to 1997, and in Jiujiang Environmental Protection Bureau, Jiangxi province (江西省九江市環境保護局) from 1991 to 1992. Mr. WANG holds a bachelor degree in Biology from the Peking University.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**ZHOU Luming** (周路明), aged 58, was appointed as an independent non-executive Director with effect from 1 April 2014. Mr. ZHOU is currently a dean of the Southern Institute of Science and Technology of Space. He was a teacher in South-Central University for Nationalities from July 1984 to May 1992, during which his professional article Systems Science (系統科學) was published with release of certain papers. From May 1992 to September 2001, he worked in Shenzhen Technology Bureau (深圳市科技局) as head of the compliance division, director of general office and head of the planning division, taking charge of the formulation of a series of major legislations and research on decision-making work. Mr. ZHOU acted as deputy dean of Research Institute of Tsinghua University in Shenzhen from September 2001 to May 2004. He was deputy director of Shenzhen Technology Bureau from May 2004 to May 2008. During the period from 2005 to 2008, Mr. ZHOU presided over series of study on innovative cities. From 2008 to March 2014, when he served as chairman of Shenzhen Science and Technology Association, he established a great number of private-funded research institutes with international advanced level, which involved metamaterial, new energy and precise manufacturing. His experience in directing the restructuring of Shenzhen Science and Technology Association was highly appreciated by major leaders of China Association of Science and Technology with promotion in the system of the association of science and technology. Mr. ZHOU graduated from the Faculty of Physics of Central China Normal University in 1984, and received his EMBA degree after graduating from Tsinghua University in 2005.

## SENIOR MANAGEMENT

**XIE Yuehui (謝粵輝):** Please refer to the section headed “Directors — Executive Director” above for the details of his biography.

**ZHANG Deyuan (張德元),** aged 53, is our Chief Technology Officer principally in charge of research and development of our Group. Mr. ZHANG joined our Group in October 2006 as a research and development director. He has over 27 years of experience in materials research and development. From 1981 to 1983, Mr. ZHANG served as a technician at the Huainan Coal Mine Machinery Plant of the Formerly Ministry of Coal (原煤炭部淮南煤礦機械廠), and was responsible for the technical operation in relation to metal materials. From 1990 to 2002, Mr. ZHANG was the deputy director of Institute of Applied Physics and chairman of laser R&D center at Jiangxi Academy of Sciences (江西科學院), where he was responsible for the R&D of new materials and surface processing technology. During this time, Mr. ZHANG completed six technology projects (provincial level) and received three technology advancement and technology innovation awards granted by the provincial government. From 2002 to 2006, he served as R&D department director in the National R&D Centre for Surface Engineering of the PRC (國家863計劃材料表面技術研究開發中心), and was responsible for the R&D of the material surface ion implantation, PVD, PCVD and micro-arc oxidation technology. In 2006, he held a position of the manager of surface coating department of Lung Kee Group in Hong Kong (香港龍記集團), and was responsible for the development of mold surface special coating process. Mr. ZHANG graduated from Anhui University of Technology (安徽工學院) with a major in casting technology and equipment in August 1987. He obtained master’s degree in material science and engineering in Southeast University (東南大學) in May 1990. Mr. ZHANG obtained a doctorate’s degree in University of Science and Technology, Beijing’s (北京科技大學) faculty of physical chemistry in June 2001. Mr. ZHANG obtained a special subsidy from the State Department of the PRC in 2000 for his excellence in scientific research, and received a professorship at the Chinese Academy of Sciences in 2003.

**LIU Jianxiong (劉劍雄):** Please refer to the section headed “Directors — Executive Directors” above for the details of his biography.

**XIAO Ying (肖穎):** Please refer to the section headed “Directors — Executive Directors” above for the details of her biography.

**HAN Jiangbo (韓江波),** aged 56, joined the Company as our Chief Operating Officer in October 2014. He has over 22 years of experience with over 15 years in general and operations management, engineering management, and research and development management with multinational companies and in different countries. These include: (1) Power-One/ABB/Bel Fuse Shenzhen as general manager and plant director, legal representative and chairman of board; (2) EPCOS Singapore as senior director of operations; (3) Sonion Vietnam as director of operations, and (4) Hewlett-Packard Singapore as department head for Technology, Automation, Testing, etc.

Mr. HAN holds a Ph.D. degree in mechanical and production engineering from Nanyang Technological University (Singapore), a master’s degree in engineering mechanics from Xi’an Jiaotong University (China), and Bachelor degree in applied mechanics from Henan University of Science and Technology (China). He was also an associate professor in Henan University of Science and Technology and was awarded for being the outstanding young scientist by Ministry of Machinery Industry of China in the early 1990s.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company has applied the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance and confirms that it has complied with all material code provisions and most of the recommended best practices under the CG Code throughout the year ended 31 December 2016, save for the deviations from certain code provisions which are explained in the relevant paragraphs in this corporate governance report. The Company has committed to making necessary arrangements to comply with all the code provisions.

The Company will continue to review and enhance its corporate governance to ensure that it will continue to meet the requirements of the CG Code and the rising expectations of shareholders and investors.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in the listed securities of the Company by the Directors.

Having made specific enquiry with all Directors, each of the Directors has confirmed that he has complied with the required standards set out in the Model Code during the year ended 31 December 2016. Details of the shareholding interests held by the Directors as at 31 December 2016 are set out on page 43 of this annual report.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2016.

## BOARD OF DIRECTORS

As at the date of this annual report, the Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors, and changes to the Board members during 2016 and up to the date of this annual report are as follows:

### Executive Directors

XIE Yuehui (*Chairman and Chief Executive Officer*)

LIU Jianxiong (*Chief Financial Officer and Company Secretary*)

XIAO Ying (appointed on 28 March 2016)

### Non-executive Directors

WU Jianhui (resigned on 28 March 2016)

CLEARY Christopher Michael

MONAGHAN Shawn Del

JIANG Feng

**Independent Non-executive Directors**

LIANG Hsien Tse Joseph

ZHOU Gengshen (resigned on 29 January 2016)

WANG Wansong (appointed on 29 January 2016)

ZHOU Luming

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The biographical details of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” in this annual report.

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies and evaluating the financial performance of the Group. The Board sets the overall strategies and directions for the Group with a view of developing its business and enhancing shareholders’ value. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The Board delegates day-to-day activities to the management with department heads responsible for different aspects of the business. Management is required to present an annual budget and any proposal for major investments and changes in business strategies for the Board’s approval. The non-executive Directors serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group through their contributions in Board meetings. They are also serving on the audit committee, the remuneration committee and the nomination committee of the Company.

During the year ended 31 December 2016, the Board complied at all times with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. The Company has received an annual confirmation of his independence from each of the independent non-executive Directors and considers that their independence is in compliance with the Listing Rules as at the date of this annual report.

During the year ended 31 December 2016, five regular Board meetings were held mainly for reviewing and approving the financial and operating performance, in which four of them were held at approximately quarterly intervals.

The attendance record of each member of the Board is set out below:

	<b>Attendance/ Number of Board meetings held</b>	<b>Attendance/ Number of general meetings held</b>
<b>Name of Directors</b>		
<b>EXECUTIVE DIRECTORS</b>		
XIE Yuehui ( <i>Chairman and Chief Executive Officer</i> )	5/5	1/1
LIU Jianxiong ( <i>Chief Financial Officer and Company Secretary</i> )	5/5	1/1
XIAO Ying (appointed on 28 March 2016)	3/3	1/1
<b>NON-EXECUTIVE DIRECTORS</b>		
WU Jianhui (resigned on 28 March 2016)	0/2	N/A
CLEARY Christopher Michael	3/5	0/1
MONAGHAN Shawn Del	3/5	1/1
JIANG Feng	4/5	0/1
<b>INDEPENDENT NON-EXECUTIVE DIRECTORS</b>		
LIANG Hsien Tse Joseph	5/5	1/1
ZHOU Gengshen (resigned on 29 January 2016)	0/1	N/A
WANG Wansong (appointed on 29 January 2016)	4/4	1/1
ZHOU Luming	4/5	0/1

### Practices and Conduct of Meetings

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings to give all Directors an opportunity to attend.

For regular Board and committee meetings, all agendas, board papers, together with all applicable, complete and reliable information will be sent to all the Directors or committees at least three days before a meeting is held. All Directors may propose any business to be included in the agenda of the Board or committee meetings and contact Company Secretary to ensure full compliance with all of the Board's procedures and applicable regulations.

In general, the senior management members shall attend all the regular Board meetings and, if necessary, other Board and committee meetings to advise on the Company's business development, financial and accounting matters, statutory and regulatory compliance, corporate governance as well as other significant issues. The Board may, if appropriate, authorize the Directors to seek independent and professional advice at the expense of the Company. Matters discussed and resolved at Board meetings will be recorded in detail by the Company Secretary who shall prepare and file the minutes or resolutions. Generally, draft minutes of Board meeting shall be issued to the Directors within reasonable time for their comments after such meeting is held, and the final version will be open for inspections by the Directors.

The articles of association of the Company (the "Articles of Association") contain provision requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or their associates have a material interest and this provision has always been complied with.

### Continuous Professional Development for Directors

During the year ended 31 December 2016, the Directors participated in training related to the corporate governance and Listing Rules organized by the Company's Hong Kong legal advisor, and the Company has kept the relevant training records.

A summary of training received by the Directors for the year ended 31 December 2016 according to the records provided by the Directors is as follows:

Name of Directors	Participated in continuous professional development <sup>1</sup>
<b>Executive Directors:</b>	
XIE Yuehui ( <i>Chairman and Chief Executive Officer</i> )	√
LIU Jianxiong	√
XIAO Ying (appointed on 28 March 2016)	√
<b>Non-executive Directors:</b>	
WU Jianhui (resigned on 28 March 2016)	N/A
CLEARY Christopher Michael	√
MONAGHAN Shawn Del	√
JIANG Feng	√
<b>Independent non-executive Directors:</b>	
LIANG Hsien Tse Joseph	√
ZHOU Gengshen (resigned on 29 January 2016)	N/A
WANG Wansong (appointed on 29 January 2016)	√
ZHOU Luming	√

1. Attended training/seminar/conference arranged by the Company or other external parties or read relevant material.

During the year ended 31 December 2016, each of the newly appointed Directors, Mr. WANG Wansong, Ms. XIAO Ying, attended director's training seminars conducted by the Company's Hong Kong legal advisor as an introduction to the legal and regulatory regime for Hong Kong listed companies.

### Corporate Governance Functions

The Board approved and adopted the updated Terms of Reference of the Board on Corporate Governance Functions with effect from 8 November 2013. For the year ended 31 December 2016, the Company complied with code provision D.3.1 of the CG Code.

### Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code that the roles of chairman of the board and chief executive officer should be separate and should not be performed by the same individual. Since March 2015, Mr. XIE Yuehui, Chairman of the Board and an executive Director, was appointed to act as the Chief Executive Officer, and thereafter the roles of the Chairman of the Board and the Chief Executive Officer have been performed by the same individual.

Although the dual roles of Chairman and Chief Executive Officer is a deviation from the code provision A.2.1 of the CG Code, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. XIE Yuehui provides the Company with strong and consistent leadership while allowing effective and efficient planning and implementation of business decisions and strategies.

Under the leadership of Mr. XIE Yuehui, the Board is responsible for the approval and supervision of the Group's general development strategy, the sanction of the annual budget and business plans, the consent of material investment projects related to the Group's business development, the evaluation of the Group's performance and the supervision of the work of the management, and ensures that the Board acts in the best interests of the Group, operates effectively and performs the necessary duties, as well as discuss all the significant and appropriate issues of the Company's business in a timely manner. All the Directors are entitled to propose the inclusion of any item in the agenda of the Board meeting for appropriate discussion. The Chairman will ensure all the Directors are provided with sufficient and reliable information in a timely manner required for necessary analysis based on their expertise.

As the Chief Executive Officer of the Company, Mr. XIE Yuehui has delegated sufficient authority for the operation and management of the Group's business to the senior management members, who shall be in-charge of the daily management of the Group in every aspect, including the consistent implementation of the Board's resolutions, and be accountable to the Chief Executive Officer for the operations of various aspects of the Group's business, while the Chief Executive Officer shall be accountable to the Board for the Group's operations as a whole.

### Non-executive Directors and independent non-executive Directors

Code provision A.4.1 provides that non-executive Directors should be appointed for a specific term and subject to re-election. The Company's non-executive Directors have been appointed for an initial term of three years and the Company's independent non-executive Directors have been appointed for an initial term of one year. On 10 November 2014, the Company's independent non-executive Directors were appointed for a term of three years. All of the Company's non-executive Directors and independent non-executive Directors in position as at 31 December 2016 are subject to re-election.



### COMMITTEES

As part of the corporate governance practices, the Board has established an audit committee, a remuneration committee and a nomination committee. The majority of committees are composed of non-executive Directors and independent non-executive Directors with terms of reference in accordance with the principles set out in the CG Code.

#### Audit Committee

The Board established an audit committee (the “Audit Committee”) on 22 October 2011 in compliance with Rule 5.28 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) and with updated written terms of reference adopted on 8 November 2013 in accordance with code provision C.3.3 of the CG Code. In view of the recent amendments to the CG Code effective for the accounting period beginning on 1 January 2016, the Company adopted a revised terms of reference of the Audit Committee on 30 December 2015 in order to comply with certain changes related to the risk management and internal control section of the CG Code.

As at the date of this annual report, the Audit Committee is in compliance with Rules 3.21 to 3.23 of the Listing Rules and consists of three members, all of whom are independent non-executive Directors, namely, Mr. LIANG Hsien Tse Joseph, with appropriate professional qualifications who serves as the chairman of the Audit Committee, Mr. ZHOU Luming and Mr. WANG Wansong. On 29 January 2016, Mr. ZHOU Gengshen resigned as a member of the Audit Committee, and Mr. WANG Wansong was appointed as the member of the Audit Committee. On 28 March 2016, Mr. WU Jianhui resigned as the member of the Audit Committee, and Mr. ZHOU Luming was appointed as the member of the Audit Committee.

The primary duties of the Audit Committee are set out in the updated terms of reference which include assisting the Board with providing an independent view of the effectiveness of our financial reporting process, risk management and internal control systems, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

During the year ended 31 December 2016, the Audit Committee held two meetings and performed the following duties:

- (1) reviewed and commented on the Company’s draft annual and interim financial results announcements;
- (2) reviewed and commented on the Group’s internal control measures; and
- (3) met with the external auditors and participated in the re-appointment and assessment of the performance of the external auditors.

The particulars of the attendance of the Audit Committee are set forth as follows:

<b>Name of the members of the Audit Committee</b>	<b>Number of meetings attended/ convened</b>
<b>Chairman:</b>	
Mr. LIANG Hsien Tse Joseph	2/2
<b>Members:</b>	
Mr. WU Jianhui (resigned on 28 March 2016)	0/1
Mr. ZHOU Luming (appointed on 28 March 2016)	1/1
Mr. ZHOU Gengshen (resigned on 29 January 2016)	N/A
Mr. WANG Wansong (appointed on 29 January 2016)	2/2

The Group's annual audited results for the year ended 31 December 2016 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results are complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

#### Remuneration Committee

The Board has established a remuneration committee (the "Remuneration Committee") on 22 October 2011 in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules, with updated written terms of reference adopted on 8 November 2013 in accordance with code provision B.1.2 of the CG Code. As at the date of this annual report, the Remuneration Committee is in compliance with Rules 3.25 to 3.27 of the Listing Rules and consists of three members, the majority of whom are independent non-executive Directors. Mr. WANG Wansong, an independent non-executive Director, served as the chairman of the Remuneration Committee while Mr. LIANG Hsien Tse Joseph, an independent non-executive Director, and Mr. CLEARY Christopher Michael, a non-executive Director, served as members of the Remuneration Committee. On 29 January 2016, Mr. ZHOU Gengshen resigned as the chairman of the Remuneration Committee, and Mr. WANG Wansong was appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are set out in its terms of reference which include (but without limitation): (i) making recommendations to the Directors on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and (iv) considering the grant of share options to eligible participants pursuant to the Share Option Scheme.

The Remuneration Committee held two meetings during the year ended 31 December 2016. The particulars of the attendance of the Remuneration Committee are set forth as follows:

<b>Name of the members of the Remuneration Committee</b>	<b>Number of meetings attended/ convened</b>
<b>Chairman:</b>	
Mr. ZHOU Gengshen (resigned on 29 January 2016)	1/1
Mr. WANG Wansong (appointed on 29 January 2016)	0/1
<b>Members:</b>	
Mr. CLEARY Christopher Michael	2/2
Mr. LIANG Hsien Tse Joseph	2/2

#### **Nomination Committee**

The Board established a nomination committee (the "Nomination Committee") on 22 October 2011, with updated written terms of reference adopted on 8 November 2013 in accordance with code provision A.5.2 of the CG Code. As at the date of this annual report, the Nomination Committee consists of three members, the majority of whom are independent non-executive Directors, namely Mr. ZHOU Luming, an independent non-executive Director, who serves as the chairman of the Nomination Committee, Mr. XIE Yuehui, an executive Director, and Mr. LIANG Hsien Tse Joseph, an independent non-executive Director.

The primary functions of the Nomination Committee are set out in its updated terms of reference which include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board on the appointment or re-appointment of Directors.

The Board adopted a board diversity policy on 19 August 2013. The Company recognizes the benefits of having a diverse Board, and considers diversity at Board level essential in achieving a sustainable and balance development. For recommending suitable candidates to the Board, the Nomination Committee will take into consideration merit of the candidates, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

The Nomination Committee held two meetings during the year ended 31 December 2016 to identify and make recommendations to the Board on the selection of individuals nominated for directorship, and considered the qualifications of the retiring Directors standing for re-election at the annual general meeting. The particulars of the attendance of the Nomination Committee are set forth as follows:

<b>Name of the members of the Nomination Committee</b>	<b>Number of meeting attended/ convened</b>
<b>Chairman:</b>	
Mr. ZHOU Luming	2/2
<b>Members:</b>	
Mr. XIE Yuehui	2/2
Mr. LIANG Hsien Tse Joseph	2/2

The Nomination Committee has recommended the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company.

#### REMUNERATION OF EXTERNAL AUDITOR

For the year ended 31 December 2016, the Group's external auditor, Deloitte Touche Tohmatsu, provided annual audit service and the Continuing Connected Transactions ("CCT") report service to the Group, and the total fees paid/payable in respect of annual audit service and CCT report service were approximately RMB1.66 million and RMB0.03 million. There was no non-audit service provided in the year 2016.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditor. Such appointments, re-appointments and removals are subject to the approval of the Board and shareholders at the general meetings of the Company.

#### RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective risk management and internal control systems in order to safeguard the interests of the shareholders and the assets of the Company against unauthorized use or disposition, ensuring the maintenance of proper accounting books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

During the year ended 31 December 2016, the Board has discussed and reviewed the risk management and internal control systems and the relevant proposal made by senior management in order to ensure an adequate and effective systems of risk management and internal control. The Board will continue to assess the effectiveness of risk management and internal controls by considering reviews presented by the Audit Committee, executive management and the Internal Compliance Coordinators of the Company.

### DIRECTORS' RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2016, which give a true and fair view of the results and financial position of the Group. The Directors consider that in preparing financial statements, the Group ensures to meet statutory requirements and applies appropriate policies that are consistently adopted and makes judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

The Directors are responsible for ensuring that proper accounting records are kept so that the Group could prepare financial statements in accordance with statutory requirements and the Group's accounting policies. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities within the Group.

The Directors are not aware of any material uncertainties related to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company and the Group is set out in the Independent Auditors' Report on pages 55 and 60 of this annual report.

### COMPANY SECRETARY

Mr. LIU Jianxiong was appointed as the Company Secretary of the Company on 22 October 2011. Mr. LIU has over 24 years of experience in the accounting field. During the year ended 31 December 2016, Mr. LIU undertook over 24 hours of relevant professional training to update his skills and knowledge in corporate governance and compliance issues. The biographical information of Mr. LIU is set out in the "Biographical Details of Directors and Senior Management" section on page 20 of this annual report.

### SHAREHOLDERS' RIGHTS

Pursuant to article 12.3 of the Articles of Association, an extraordinary general meeting shall be convened on written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any member of the Company which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist holds as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided

that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. Except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules, poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

There is no provision allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

In relation to the proposal of a person for election as a Director, please refer to the procedures available on the website of the Company at [www.lifetechmed.com](http://www.lifetechmed.com).

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's principal place of business in Hong Kong at 31/F, 148 Electric Road, North Point, Hong Kong.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to the shareholders of the Company and investors.

The Company updates its shareholders on its latest business developments and financial performance through its annual and interim reports and notices, announcements and circulars. The website of the Company ([www.lifetechmed.com](http://www.lifetechmed.com)) provides a communication platform to the public and the shareholders. In March 2012, the Board has also established a written shareholders' communication policy and will review it on a regular basis to ensure its effectiveness.

## CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2016, the Company has not made any changes to its Memorandum and Articles of Association.

## ANNUAL GENERAL MEETING

The Company's annual general meeting is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. It has been the practice for all the Directors (including the Chairman) and the chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee or, in their absence, other members of the respective committee together with the external auditor of the Company to attend the annual general meeting to answer shareholders' questions.

## DIRECTORS' REPORT

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company while its subsidiaries are principally engaged in the manufacturing and marketing of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. For further details on the principal activities of its subsidiaries, please refer to Note 39 to the consolidated financial statements.

Details of the activities during the year ended 31 December 2016 as required by Schedule 5 to the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business, and the Group's environmental policies and performance, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are set out under the section "Management Discussion and Analysis" on pages 8 to 19 of this annual report.

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the sections headed "Management Discussion and Analysis" respectively on pages 8 to 19 of this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report, particularly in the section "Management Discussion and Analysis" on pages 15 to 16 of this annual report. Particulars of important events affecting the Company that have occurred since the end of the year 2016, if any, can also be found in the above-mentioned sections and the Notes to the consolidated financial statements. The outlook of the Company's business is discussed throughout this annual report including in the Chairman's Statement from pages 5 to 7 of this annual report. An account of the Company's relationships with its key stakeholders is included in the section headed "Employees and Remuneration Policy" on pages 17 to 18 of this annual report.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2016.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out in the financial summary on page 4 of this annual report. The summary does not form part of the audited consolidated financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, sales to the Group's five largest customers accounted for approximately 27.3% of the Group's total sales and sales to the largest customer included therein amounting to approximately 7.0%.

The aggregate purchases during the year attributable to the Group's five largest suppliers were approximately 45.7% of the Group's total purchases and purchases from the largest supplier included therein amounting to approximately 12.4%.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in the share capital of any of the five largest customers or suppliers of the Group.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year of 2016 are set out in Note 29 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group during the year ended 2016 are set out in the consolidated statement of changes in equity.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, the Company's reserves available for distribution to its owners of the Company amounted to approximately RMB731.7 million (2015: approximately RMB74.5 million).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2016 are set out in Note 15 to the consolidated financial statements in this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association and the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## MANAGEMENT CONTRACTS

Other than the service contracts or appointment letters of the Directors, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company.



## DIRECTORS' REPORT

### DIRECTORS

The Directors during the year and up to the date of this Directors' report are as follows:

#### Executive Directors

XIE Yuehui (*Chairman and Chief Executive Officer*)

LIU Jianxiong (*Chief Financial Officer and Company Secretary*)

XIAO Ying (appointed on 28 March 2016)

#### Non-executive Directors

WU Jianhui (resigned on 28 March 2016)

CLEARY Christopher Michael

MONAGHAN Shawn Del

JIANG Feng

#### Independent Non-executive Directors

LIANG Hsien Tse Joseph

ZHOU Gengshen (resigned on 29 January 2016)

WANG Wansong (appointed on 29 January 2016)

ZHOU Luming

Pursuant to article 16.2 of the Articles of Association, Mr. WANG Wansong and Ms. XIAO Ying who were appointed by the Board as Directors on 29 January 2016 and 28 March 2016 respectively, shall retire from office as Directors at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the annual general meeting.

Pursuant to the Articles of Association and code provision A.4.2 of the CG Code, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. All directors in office at the beginning of the forthcoming AGM will retire and, being eligible, offer themselves for re-election at such AGM.

### BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical information of the Directors and senior management of the Group are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

### DISCLOSURE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## DIRECTOR'S SERVICE CONTRACTS OR APPOINTMENT LETTERS

Mr. XIE Yuehui, an executive Director, Chairman of the Board and Chief Executive Officer, has signed a service contract with the Company for an initial term of three years commencing from 10 November 2011, which is subject to automatic renewal every three years on the same terms and conditions until terminated by either party giving to the other party forthcoming not less than three months' notice in writing. On 10 November 2014, Mr. XIE Yuehui and the Company renewed the service contract which is subject to manual renewal every three years on the same terms and conditions until terminated by either party giving to the other party not less than three months' notice in writing.

Mr. LIU Jianxiong has been appointed as an executive Director and entered into a service contract with the Company for an initial term of three years commencing from 27 March 2015 until terminated by either party giving to the other party not less than three months' notice in writing.

Ms. XIAO Ying has been appointed as an executive Director and entered into a service contract with the Company for an initial term of three years commencing from 28 March 2016.

Mr. JIANG Feng has been appointed as a non-executive Director and entered into a service contract with the Company for an initial term of three years commencing from 1 April 2014, which is subject to automatic renewal every three years on the same terms and conditions until terminated by either party giving to the other party not less than three months' notice in writing.

Mr. MONAGHAN Shawn Del has been appointed as a non-executive Director and entered into a service contract with the Company for an initial term of three years commencing from 27 March 2015, which is subject to automatic renewal every three years on the same terms and conditions until terminated by either party giving to the other party not less than three months' notice in writing.

Mr. CLEARY Christopher Michael has been appointed as a non-executive Director and entered into an appointment letter with the Company for an initial term of three years commencing from 27 August 2015.

Mr. LIANG Hsien Tse Joseph has been appointed as an independent non-executive Director and entered into a service contract with the Company for an initial term of one year commencing from 10 November 2011, while Mr. ZHOU Luming has been appointed as an independent non-executive Director and entered into a service contract with the Company for an initial term of one year commencing from 1 April 2014, all of which are subject to automatic renewal on an annual basis on the same terms and conditions until terminated by either party giving to the other party not less than one month's notice in writing. On 10 November 2014, each of Mr. LIANG and Mr. ZHOU renewed the service contracts with the Company respectively which is subject to manual renewal every three years on the same terms and conditions until terminated by either party giving to the other party not less than three months' notice in writing.

Mr. WANG Wansong has been appointed as an independent non-executive Director and entered into an appointment letter with the Company for an initial term of three years commencing from 29 January 2016.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract or appointment letter with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' REPORT

### EMOLUMENT POLICY

During the year ended 31 December 2016, the Remuneration Committee reviewed the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Company, which are determined with reference to the Group's operating results, individual performance and comparable market practices.

The emoluments of the senior management of the Company were within the following bands:

	2016	2015
Total remuneration on individual basis		
Nil to RMB1,000,000	1	—
RMB1,000,001 to RMB2,000,000	—	1
RMB2,000,001 to RMB3,000,000	1	—
RMB3,000,001 to RMB4,000,000	—	—
RMB4,000,001 to RMB5,000,000	—	1
RMB5,000,001 to RMB6,000,000	2	3
RMB6,000,001 to RMB7,000,000	1	—

### REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with the highest emoluments are set out in Note 11 to the consolidated financial statements.

### CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation letter to confirm their compliance with the independence requirement under Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent in accordance with the guidelines set out in the Listing Rules.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

### (a) Long positions in ordinary shares and underlying shares of the Company

Name of Directors/ chief executive	Nature of interest	Number of shares	Percentage of the Company's issued share capital
XIE Yuehui	Interest of controlled corporation and beneficial owner	801,514,928 <sup>1</sup>	18.55%
WU Jianhui (resigned on 28 March 2016)	Interest of controlled corporation	328,230,656 <sup>2</sup>	7.60%
LIU Jianxiong	Beneficial owner	24,800,000 <sup>3</sup>	0.57%
XIAO Ying	Beneficial owner	1,590,000 <sup>4</sup>	0.04%

1: These interests represented:

- (a) 781,914,928 shares held by Xianjian Advanced Technology Limited, which is wholly owned by Mr. XIE Yuehui, our Chairman, Chief Executive Officer and executive Director; and
- (b) 19,600,000 options granted to Mr. XIE Yuehui, which were subject to certain vesting conditions pursuant to the Share Option Scheme, details of which are set out in the section headed "Share Option Scheme" in this annual report.

2: These shares are held through GE Asia Pacific Investments Ltd., which is wholly owned by Mr. WU Jianhui, the former non-executive Director of the Company.

3: These interests represented:

- (a) 8,000,000 shares held by Mr. LIU Jianxiong, our executive Director, Chief Financial Officer and company secretary; and
- (b) 16,800,000 options granted to Mr. LIU Jianxiong, which were subject to certain vesting conditions pursuant to the Share Option Scheme, details of which are set out in the section headed "Share Option Scheme" in this annual report.

4: This interest represented 1,590,000 options granted to Ms. XIAO Ying, which were subject to certain vesting conditions pursuant to the Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Scheme" in this annual report.

Save as disclosed above, as at 31 December 2016, so far as is known to any Directors or chief executives of the Company, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, other than the interests of a Director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations" above, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company, were as follows:

(a) Long positions in shares of the Company

Name of Shareholder	Number of shares	Capacity	Percentage of the Company's issued share capital
Xianjian Advanced Technology Limited (Note 1)	781,914,928	Beneficial owner	18.10%
GE Asia Pacific Investments Ltd. (Note 2)	328,230,656	Beneficial owner	7.60%
Medtronic KL Holdings LLC (Note 3)	1,080,000,000	Beneficial owner	25.00%
Medtronic Holding Switzerland G.m.b.H. (Note 3)	1,080,000,000	Interest of controlled corporation	25.00%
Medtronic B.V. (Note 3)	1,080,000,000	Interest of controlled corporation	25.00%
Medtronic International Technology, Inc. (Note 3)	1,080,000,000	Interest of controlled corporation	25.00%
Medtronic, Inc. (Note 3)	1,080,000,000	Interest of controlled corporation	25.00%
Medtronic Holding, Inc. (Note 3)	1,080,000,000	Interest of controlled corporation	25.00%
Medtronic Group Holding, Inc. (Note 3)	1,080,000,000	Interest of controlled corporation	25.00%
Medtronic plc (Note 3)	1,080,000,000	Interest of controlled corporation	25.00%

*Note 1:* The entire issued share capital of Xianjian Advanced Technology Limited is wholly owned by Mr. XIE Yuehui, our Chairman, Chief Executive Officer and executive Director.

*Note 2:* The entire issued share capital of GE Asia Pacific Investments Ltd. is wholly owned by Mr. WU Jianhui, the former non-executive Director of the Company.

*Note 3:* The entire issued share capital of Medtronic KL Holdings LLC is controlled as to 90.33% by Medtronic Holding Switzerland G.m.b.H., which in turn is wholly owned by Medtronic B.V.. Medtronic B.V. is wholly owned by Medtronic International Technology, Inc., which in turn is wholly owned by Medtronic, Inc.. Medtronic, Inc. is wholly owned by Medtronic Holding, Inc., which in turn is wholly owned by Medtronic Group Holding, Inc.. Medtronic Group Holding, Inc. is wholly owned by Medtronic plc.

(b) Derivative interests

Name of Shareholder	Number of underlying shares	Capacity	Percentage of the Company's issued share capital
Medtronic KL Holdings LLC <i>(Notes 1 and 2)</i>	2,708,571,432	Beneficial owner	62.68%
Medtronic Holding Switzerland G.m.b.H. <i>(Notes 1 and 2)</i>	2,708,571,432	Interest of controlled corporation	62.68%
Medtronic B.V. <i>(Notes 1 and 2)</i>	2,708,571,432	Interest of controlled corporation	62.68%
Medtronic International Technology, Inc. <i>(Notes 1 and 2)</i>	2,708,571,432	Interest of controlled corporation	62.68%
Medtronic, Inc. <i>(Notes 1 and 2)</i>	2,708,571,432	Interest of controlled corporation	62.68%
Medtronic Holding, Inc. <i>(Notes 1 and 2)</i>	2,708,571,432	Interest of controlled corporation	62.68%
Medtronic Group Holding, Inc. <i>(Notes 1 and 2)</i>	2,708,571,432	Interest of controlled corporation	62.68%
Medtronic plc <i>(Notes 1 and 2)</i>	2,708,571,432	Interest of controlled corporation	62.68%

*Note 1:* The entire issued share capital of Medtronic KL Holdings LLC is controlled as to 90.33% by Medtronic Holding Switzerland G.m.b.H., which in turn is wholly owned by Medtronic B.V., Medtronic B.V. is wholly owned by Medtronic International Technology, Inc., which in turn is wholly owned by Medtronic, Inc.. Medtronic, Inc. is wholly owned by Medtronic Holding, Inc., which in turn is wholly owned by Medtronic Group Holding, Inc.. Medtronic Group Holding, Inc. is wholly owned by Medtronic plc.

*Note 2:* Capitalized terms used in this paragraph shall have the same meanings as those defined in the circular of the Company dated 6 January 2013. These shares are the underlying shares to be issued upon the full conversion of the First Tranche Convertible Notes and the Second Tranche Convertible Notes pursuant to the terms and conditions under the Investment Agreement dated 14 October 2012. Completion of the subscription of the First Tranche Convertible Notes at the principal amount of HK\$152 million, which are convertible into 40,000,000 new shares at the initial conversion price of HK\$3.80, took place on 30 January 2013. The convertible shares are adjusted from 40,000,000 to 320,000,000 and initial conversion price is adjusted from HK\$3.80 to HK\$0.475 as share subdivision of the Company became effective on 12 January 2015. On 29 December 2016, the First Tranche Convertible Notes were converted. For further details, please refer to the announcement of the Company dated 22 December 2016. In addition, the subscription of the Second Tranche Convertible Notes is pending to be completed.

Save as disclosed above, as at 31 December 2016, the Directors have not been notified by any other person (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

### DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from the details as disclosed under the heading "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

### SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 22 October 2011 and the Share Option Scheme has been amended by an unanimous written resolutions of the Board on 5 May 2015. Such amendment to the Share Option Scheme was made due to the transfer of listing of the shares of the Company from GEM of the Stock Exchange to the Main Board of the Stock Exchange and in order to ensure that the references and margin notes quoted and referred to therein are in compliance and consistent with the Listing Rules.

#### 1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Company to grant options to the Eligible Participants (as defined below) as incentives or rewards for their contribution to the growth of our Group and to provide our Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

#### 2. Participants of the Share Option Scheme and the basis of determining the eligibility of the participants

The Board may at its discretion grant options to any full-time or part-time employees, Directors (including executive, non-executive or independent non-executive) and any consultants or advisers (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of our Company and/or any of our subsidiaries (collectively the "Eligible Participants").

### 3. Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Group must not, in aggregate, exceed 10% of the issued share capital of our Company as at the Listing Date (the "Scheme Mandate Limit") unless Shareholders' approval has been obtained. Any options lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of our Group shall not be counted for the purpose of calculating the Scheme Mandate Limit.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not, in aggregate, exceed 400,000,000 shares, being 10% of the total issued shares of the Company as at the Listing Date.

### 4. Maximum entitlement of each participant

Unless approved by the shareholders in the manner set out in the Share Option Scheme, the total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options under the Share Option Scheme) in any 12-month period must not exceed 1% of the issued share capital of the Company.

### 5. Offer period and amount payable for options

An offer of grant of an option shall remain open for acceptance by the Eligible Participant concerned for such period as determined by the Board, which period shall not be more than fourteen (14) days from the date of the offer, provided that no such offer shall be open for acceptance after the tenth anniversary of the 22 October 2011 or after the Share Option Scheme has been terminated in accordance with the provisions thereof. Upon acceptance of the offer, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price.

### 6. Minimum period for which an option must be held before it can be exercised

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme. However, the Board may offer to grant any options subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance targets to be achieved before such options can be exercised as the Board may determine in its absolute discretion.



**7. Basis of determining the subscription price**

The subscription price for shares in respect of any particular option granted under the Share Option Scheme shall be such price as the Board shall determine, provided that such price shall be at least the highest of:

- (i) the closing price per share as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option;
- (ii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the date of offer of the option; and
- (iii) the nominal value of a share.

**8. Remaining Life of the Share Option Scheme**

Subject to the fulfilment of the conditions of the Share Option Scheme and the earlier termination by Shareholders' resolution in general meeting or the Board, the Share Option Scheme shall be valid and effective for a period of ten (10) years commencing from 22 October 2011, after which period no further options will be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the Share Option Scheme.

On 5 May 2015, an aggregate of 160,000,000 shares, which represented approximately 3.70% of the shares in issue as at 31 December 2016, were granted subject to certain vesting conditions pursuant to the Share Option Scheme to certain eligible participants (the "Grantees"), including grant of 19,600,000 shares, 16,800,000 shares and 1,590,000 made to three executive Directors, namely Mr. XIE Yuehui, Mr. LIU Jianxiong and Ms. XIAO Ying respectively. On 5 May 2016, the first batch of the options granted pursuant to the Share Option Scheme were vested. As at 31 December 2016, 25,948,800 options remain exercisable.

The table below sets out details of the outstanding options granted to the Directors and other grantees under the Share Option Scheme and movements during the period from the date of grant to 31 December 2016:

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Granted on the date of grant	Outstanding as at 1 January 2016	Number of Shares		
							31 December 2016	Cancelled/ Exercised during the twelve months ended 31 December 2016	Outstanding as at 31 December 2016
<b>Directors/chief executive</b>									
Mr. XIE Yuehui	5 May 2015	20% of options on 5 May 2016, 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK\$1.464	19,600,000	19,600,000	—	—	19,600,000
Mr. LIU Jianxiong	5 May 2015	20% of options on 5 May 2016, 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK\$1.464	16,800,000	16,800,000	—	—	16,800,000
Ms. XIAO Ying	5 May 2015	20% of options on 5 May 2016, 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK\$1.464	1,590,000	1,590,000	—	—	1,590,000
<b>Other Grantees</b>									
Aggregate of other Grantees	5 May 2015	20% of options on 5 May 2016, 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK\$1.464	122,010,000	102,762,000	(811,600)	(9,918,000)	92,032,400
Total					160,000,000	140,752,000	(811,600)	(9,918,000)	130,022,400

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year ended 31 December 2016.

## CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a controlling shareholder of the Company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2016 or at any time during the year ended 31 December 2016.

### PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Directors shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

During the year ended 31 December 2016, permitted indemnity provision as defined in the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) was in force for indemnity against liability incurred by Directors, to a third party.

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

As Medtronic is a substantial shareholder of the Company and hence a connected person (as defined in the Listing Rules) of the Company, the transactions as disclosed below constitute connected transaction or continuing connected transaction of the Company as defined under Chapter 14A of the Listing Rules.

#### New Transaction Agreements

To expand the alliance to include pacemaker and cardiac lead products to be manufactured and commercialized in China for the China market, the Company, by itself or through its affiliates, entered into the "New Transaction Agreements". Under the New Transaction Agreements, Medtronic and its affiliates will provide the Company or its affiliates with (i) licenses to know-how and other intellectual property; (ii) certain consulting services; (iii) certain equipment and components; (iv) manufacturing capabilities and (v) marketing, promotion and distribution in connection with certain implantable cardiac rhythm management products to be developed and manufactured by the Company at the Company's facility in Shenzhen, the PRC. For further details, please refer to the announcement of the Company dated 28 July 2014, the supplemental announcement of the Company dated 7 August 2014 and 17 April 2015, the circular of the Company dated 20 April 2015 and the poll results announcement of the Company dated 7 May 2015.

For the year ended 31 December 2016, the transaction amount under the New Transaction Agreements was approximately RMB15,417,000 (2015: approximately RMB47,373,000), where the relevant annual cap was RMB90,600,000.

#### Distribution Agreements

On 14 October 2012, the Company, Beijing PerMed and Medtronic entered into the supply and exclusive distribution agreement (the "Original Distribution Agreement"), which was supplemented by the supplemental agreement to the supply and exclusive distribution agreement dated 5 January 2013 entered into between the Company, Beijing PerMed and Medtronic (the "First Supplemental Distribution Agreement") and the second supplemental agreement to the supply and exclusive distribution agreement dated 13 June 2014 entered into between the Company, Beijing PerMed, Lifetech Shenzhen and Medtronic (the "Second Supplemental Distribution Agreement"), and the third supplemental agreement to the supply and exclusive distribution agreement dated 2 November 2015 entered into between the Company, Beijing PerMed and Medtronic (the "Third Supplemental Agreement", together with the Original Distribution Agreement, the First Supplemental Distribution Agreement and the Second Supplemental Distribution Agreement, the "Distribution Agreements").

Pursuant to the terms of the Third Supplemental Agreement, the Distribution Agreements have been modified by terminating the arrangements relating to the Valve (as defined in the Company's announcement dated 2 November 2015) only with effect from the date of the Third Supplemental Agreement.

#### Fourth Supplemental Agreement Relating to the Distribution Agreements

On 20 September 2016, the Company, Beijing PerMed, and Medtronic entered into the Fourth Supplemental Agreement to, among other things, terminate the distribution rights of Medtronic in relation to the Supplemental Products under the Distribution Agreements. Under the Fourth Supplemental Agreement, the terms of the Distribution Agreements have been modified by terminating the arrangements relating to the Supplemental Products in the Territory with effect from the date of the Fourth Supplemental Agreement. For further details, please refer to the Company's announcement dated 20 September 2016.

Pursuant to the Fourth Supplemental Agreement, the distribution rights of Medtronic in relation to the Supplemental Products under the Second Supplemental Distribution Agreement have been terminated with effect from the date of 20 September 2016.

For the period from 1 January 2016 until 20 September 2016, the transaction amount under the Second Supplemental Distribution Agreement (as modified pursuant to the Fourth Supplemental Agreement) was approximately USD2,000 (2015: approximately USD1,329,000), where the relevant annual cap was USD8,940,000.

#### Services Agreements

The Services Agreements involve an aggregate service fee of USD5.0 million and an additional fee of USD3.0 million pursuant to the Second Supplemental Services Agreement, which was approved by independent shareholders in the extraordinary general meeting held on 3 April 2014, with term of two years from the First Tranche Completion Date (as defined in the Company's circular dated 18 March 2014). Pursuant to the Services Agreements, Medtronic will provide the Company with the services, which comprise, among other things, consultative services with respect to certain internal operations, quality systems and product development processes of the Company. As at 31 December 2015, all the above service fees have been paid to Medtronic.

The Company shall pay to Medtronic, on a semi-annual basis, a royalty equal to 4% of the incremental sales revenue achieved by the Group, subject to a cumulative cap of RMB300,000,000 provided however that, in the event any person other than Medtronic holds an interest of 50% or more in the Shares in the Company, such cumulative cap shall be increased to RMB600,000,000. The Company's obligation to pay the royalty shall terminate upon Medtronic holding more than 50% in the issued share capital of the Company on a fully-diluted basis.

For the year ended 31 December 2016, the royalty fee under the Services Agreements was approximately RMB11,125,000 (2015: approximately RMB5,205,000) and, as at 31 December 2016, the cumulative royalty fee under the Services Agreement was approximately RMB22,360,000, which did not exceed the relevant cumulative cap of RMB300,000,000.

### Related party transaction

In 2016, the related party transactions as set out in the Note 37 to the consolidated financial statements in this annual report (other than the above-mentioned) are not “connected transactions” or “continuing connected transactions” of the Company. The Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules, where applicable.

### Annual Review

The independent non-executive Directors have reviewed the continuing connected transactions under the New Transaction Agreements, the Distribution Agreements and the Services Agreements and they confirm that the transactions in 2016 were entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company, Deloitte Touche Tohmatsu, was engaged to report on the continuing connected transactions under New Transaction Agreements, the Distribution Agreements and the Services Agreements disclosed above in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has confirmed the relevant matters stated in Rule 14A.56 of the Listing Rules and a copy of the relevant confirmation letter has been provided to the Board and the Stock Exchange.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year ended 31 December 2016 and save as disclosed in the Prospectus, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

In order to restrict competition activities with the Company, Mr. XIE Yuehui, Mr. WU Jianhui, Xianjian Advanced Technology Limited and GE Asia Pacific Investments Ltd. (collectively, the "Covenantors") have entered into a deed of non-competition in favour of the Company dated 22 October 2011 (the "Non-Competition Deed").

The undertakings and covenants stipulated under the Non-Competition Deed cover any business which involves the business of the Group as described in the Prospectus and any other business from time to time conducted by any member of the Group in Hong Kong, the PRC and such other parts of the world where by any of the Group carries on business from time to time. The Non-Competition Deed shall automatically terminate on the date when the Covenantors cease to be the controlling shareholders (as defined in the Listing Rules) of the Company.

As the aggregate shareholding in the Company's shares for the Covenantors fell below 30% since the commencement of 2016 and the Covenantors were no longer the controlling shareholders of the Company, the Non-Competition Deed terminated automatically and ceased to be effective in 2016.

## BANK BORROWINGS

The Group has recorded bank borrowings of RMB200.0 million as at 31 December 2016 (2015: approximately RMB48.0 million).

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conducts for dealings by Directors in the listed securities of the Company. Having made specific enquiry with all Directors, each of the Directors has confirmed that he has complied with the required standard as set out in the Model Code during the year ended 31 December 2016.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2016.



## DIRECTORS' REPORT

### CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out in the part of “Corporate Governance Report” of this annual report.

### AUDITORS

The consolidated financial statements in this annual report have been audited by Deloitte Touche Tohmatsu. There has been no change in the auditors of the Company during the year ended 31 December 2016. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**XIE Yuehui**

*Chairman and Chief Executive Officer*

24 March 2017

# INDEPENDENT AUDITOR'S REPORT

## To the Shareholders of LifeTech Scientific Corporation

(incorporated in Cayman Islands with limited liability)

### OPINION

We have audited the consolidated financial statements of LifeTech Scientific Corporation (the “Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 61 to 136, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key audit matter

#### How our audit addressed the key audit matter

##### ***Capitalisation of development costs***

We identified the capitalisation of development costs as a key audit matter due to its significance to the consolidated financial statements and the significant degrees of management judgement involved to determine the expenditure to be capitalised.

As disclosed in note 17 to the consolidated financial statements, the carrying amount of the Group's development costs are approximately RMB99,247,000 as at 31 December 2016. The Group capitalises significant costs incurred for the design and development of certain products related to structural heart diseases, peripheral vascular diseases and cardiac pacing and electrophysiology diseases as development costs.

Details of the criteria for the expenditure to be capitalised are disclosed in note 3 and 4 to the consolidated financial statements. The capitalisation involved management's judgement in assessing of whether technical and commercial feasibility had been achieved for each of the project. The assessment of technical feasibility is based on the management assessment of whether successful product testing had been performed. The assessment of commercial feasibility is based on the profit forecast of each development project prepared by the management that based on certain key assumptions, including revenue generated and relevant market analysis.

Our procedures in relation to the capitalisation of development costs included:

- Obtaining the commercial and technical feasibility report provided by the management and assessing the reasonableness of the commercial and technical feasibility by reference to the industry and market information;
- Obtaining the testing report of products provided by the management and enquiring the management about the technical feasibility of each product;
- Performing an analysis of expenditure incurred for each development project and enquired with the management regarding the progress of each project to determine if the criteria for capitalisation are met;
- Testing on a sample basis for the expenditure being capitalised to source documents; and
- Obtaining the profit forecast prepared by the management for each development project and assess the appropriateness of key assumptions, including revenue generated and relevant market analysis from the launching of the relevant products associated with the development project.

**Key audit matter*****Estimated impairment loss of trade receivable***

We identified the estimated impairment loss of trade receivables as a key audit matter due to the management judgment involved in the estimation of the recoverability of trade receivables and the significance of the trade receivable balances to the consolidated financial statements.

In determining the amount of impairment for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables. (Refer to notes 4 and 22 to the consolidated financial statements).

At 31 December 2016, the carrying amount of trade receivables is approximately RMB83,421,000 (net of allowance for doubtful debts approximately RMB305,000).

**How our audit addressed the key audit matter**

Our procedures in relation to the estimated impairment loss for trade receivables included:

- Understanding and testing the Company's key control in relation to the recoverability of trade receivables and appropriateness of the allowance for bad and doubtful debts;
- Testing the aging analysis of the trade receivables, on a sample basis, to the source documents;
- Discussing with the management and evaluating their assessment on the recoverability of trade receivables which without/with little settlement during the year or subsequent to the end of the reporting period;
- Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of each individual trade debtors; and
- Evaluating the historical accuracy of the allowance estimated by management by comparing historical allowance made in the consolidated financial statement to the actual outcome and tracing, on a sample basis, to the source documents.

## INDEPENDENT AUDITOR'S REPORT

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## INDEPENDENT AUDITOR'S REPORT

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Luk Kam Fan.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

24 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	7	352,849	311,606
Cost of sales		(76,315)	(59,030)
Gross profit		276,534	252,576
Other income and other gains and losses	8	22,491	10,265
Selling and distribution expenses		(81,574)	(73,600)
Administration expenses		(51,621)	(47,567)
Research and development expenses		(57,525)	(47,222)
Operating profit		108,305	94,452
Finance income	9	1,721	1,825
Finance costs	9	(16,041)	(13,251)
Finance costs, net	9	(14,320)	(11,426)
Share of results of associates	20	(491)	91
Fair value and net exchange losses on convertible notes	27	(110,392)	(65,644)
Gains on disposal of subsidiaries	33	203,848	8,923
Profit before tax	10	186,950	26,396
Income tax expense	12	(41,240)	(22,371)
Profit for the year		145,710	4,025
Other comprehensive (expense) income: Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(1,092)	72
Reclassification of reserve upon disposal of a subsidiary		—	421
Other comprehensive (expense) income for the year		(1,092)	493
Total comprehensive income for the year		144,618	4,518
Profit for the year attributable to:			
Owners of the Company		145,652	2,359
Non-controlling interests		58	1,666
		145,710	4,025
Total comprehensive income attributable to:			
Owners of the Company		144,560	2,852
Non-controlling interests		58	1,666
		144,618	4,518
Earnings per share	14		
– Basic (RMB)		0.036	0.001
– Diluted (RMB)		0.036	0.001

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	15	334,736	257,041
Investment properties	16	1,547	1,620
Intangible assets	17	110,693	78,169
Prepaid lease payments	18	31,987	33,258
Deposits for acquisition of property, plant and equipment		13,615	15,133
Deferred tax assets	19	18,153	14,822
Interests in associates	20	1,044	897
Other receivables	23	6,300	—
		<b>518,075</b>	400,940
<b>Current assets</b>			
Inventories	21	40,350	38,404
Trade receivables	22	83,421	70,951
Other receivables and prepayments	23	41,743	35,211
Prepaid lease payments	18	1,271	1,271
Bank balances and cash	24	645,208	255,110
		<b>811,993</b>	400,947
<b>Current liabilities</b>			
Trade and other payables	25	157,814	101,394
Tax payables		43,303	19,794
Bank borrowings due within one year	28	20,000	—
		<b>221,117</b>	121,188
<b>Net current assets</b>		<b>590,876</b>	279,759
<b>Total assets less current liabilities</b>		<b>1,108,951</b>	680,699
<b>Non-current liabilities</b>			
Government grants	26	58,356	58,429
Convertible notes	27	—	97,214
Conversion option derivative liability	27	—	296,759
Bank borrowings due after one year	28	180,000	48,023
		<b>238,356</b>	500,425
<b>Net assets</b>		<b>870,595</b>	180,274

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTE	2016 RMB'000	2015 RMB'000
<b>Capital and reserves</b>			
Share capital	29	35	32
Share premium and reserves		867,582	180,221
Equity attributable to owners of the Company		867,617	180,253
Non-controlling interests		2,978	21
<b>Total equity</b>		<b>870,595</b>	<b>180,274</b>

The consolidated financial statements on pages 61 to 136 were approved and authorised for issue by the board of directors on 24 March 2017 and are signed on its behalf by:

Mr Xie Yuehui  
*Executive Director and Chairman*

Mr Liu Jianxiong  
*Executive Director*



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company										Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (Note i)	Share option reserve RMB'000	Capital reserve RMB'000	Contribution reserve RMB'000 (Note ii)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January 2015	32	251,593	2,399	34,373	—	(421)	32,531	(169,243)	151,264	5,041	156,305
Profit for the year	—	—	—	—	—	—	—	2,359	2,359	1,666	4,025
Other comprehensive income for the year	—	—	72	—	—	—	—	—	72	—	72
Reclassification of reserve upon disposal of a subsidiary (note 33)	—	—	—	—	—	421	—	—	421	—	421
Total comprehensive income for the year	—	—	72	—	—	421	—	2,359	2,852	1,666	4,518
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(1,667)	(1,667)
Release upon disposal of a subsidiary (note 33)	—	—	—	—	—	—	—	—	—	(5,019)	(5,019)
Recognition of equity-settled share-based payments	—	—	—	—	26,137	—	—	—	26,137	—	26,137
Appropriations	—	—	—	10,209	—	—	—	(10,209)	—	—	—
At 31 December 2015	32	251,593	2,471	44,582	26,137	—	32,531	(177,093)	180,253	21	180,274
Profit for the year	—	—	—	—	—	—	—	145,652	145,652	58	145,710
Other comprehensive expense for the year	—	—	(1,092)	—	—	—	—	—	(1,092)	—	(1,092)
Total comprehensive (expense) income for the year	—	—	(1,092)	—	—	—	—	145,652	144,560	58	144,618
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(4)	(4)
Conversion of convertible notes	3	515,017	—	—	—	—	—	—	515,020	—	515,020
Share option lapsed during the year	—	—	—	—	(406)	—	—	406	—	—	—
Recognition of equity-settled share-based payments	—	—	—	—	26,730	—	—	—	26,730	—	26,730
Exercise of share options	—	1,645	—	—	(588)	—	—	—	1,057	—	1,057
Acquisition of partial interest in a subsidiary	—	—	—	—	—	(3)	—	—	(3)	3	—
Disposal of partial interest in a subsidiary	—	—	—	—	—	—	—	—	—	2,900	2,900
Appropriations	—	—	—	5,476	—	—	—	(5,476)	—	—	—
	3	516,662	(1,092)	5,476	25,736	(3)	—	140,582	687,364	2,957	690,321
At 31 December 2016	35	768,255	1,379	50,058	51,873	(3)	32,531	(36,511)	867,617	2,978	870,595

## Notes:

- (i) Statutory surplus reserve is non-distributable and the transfer to this reserve is determined according to the relevant laws in the PRC and by the board of directors of the PRC subsidiaries in accordance with the Article of Association of the subsidiaries. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company.
- (ii) Contribution reserve represents the difference between the fair value of the consideration paid for the acquisition of Lifetech Shenzhen from shareholders and the carrying amount of the share of net assets acquired in August 2006 and it is regarded as a deemed contribution from shareholders under merger accounting.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 RMB'000	2015 RMB'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		186,950	26,396
Adjustments for:			
Depreciation of property, plant and equipment		8,731	6,423
Share-based payment expenses		22,232	20,357
Loss on disposal of property, plant and equipment		351	126
Amortisation of intangible assets		1,406	1,276
Depreciation of investment properties		73	73
Release of prepaid lease payments		1,271	1,271
Write-down on inventories		4,962	5,500
Impairment loss recognised on trade receivables		1,324	2,722
Gains on disposal of subsidiaries	33	(203,848)	(8,923)
Government grants		(9,139)	(8,333)
Finance income		(1,721)	(1,825)
Finance costs		16,041	13,251
Share of results of associates		491	(91)
Fair value and net exchange losses on convertible notes		110,392	65,644
Operating cash flows before movements in working capital		139,516	123,867
Increase in inventories		(19,884)	(12,951)
Increase in trade receivables		(13,702)	(9,166)
Increase in other receivables and prepayments		(11,599)	(494)
Increase in trade and other payables		48,659	53,383
Increase in government grants received for operating activities		5,725	7,083
Cash generated from operations		148,715	161,722
Income taxes paid		(21,759)	(17,409)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>126,956</b>	<b>144,313</b>

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
<b>INVESTING ACTIVITIES</b>			
Interest received from bank deposits		1,721	1,096
Interest received from structured deposits		—	729
Acquisition of a subsidiary	32	459	—
Proceeds from disposal of property, plant and equipment		202	122
Deposits paid for and purchase of property, plant and equipment		(78,537)	(218,175)
Payments for intangible assets		(530)	(964)
Development costs paid		(28,916)	(22,596)
Government grants received for acquisition of plant and equipment		4,100	27,750
Release of structured deposits		—	9,440
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed)	33	213,207	10,645
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>111,706</b>	<b>(191,953)</b>
<b>FINANCING ACTIVITIES</b>			
Bank borrowings raised		151,977	48,023
Proceeds from issue of shares upon exercise of share options		344	—
Dividend paid to non-controlling interests		(4)	(1,667)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>152,317</b>	<b>46,356</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>390,979</b>	<b>(1,284)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>255,110</b>	<b>256,322</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>(881)</b>	<b>72</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash</b>		<b>645,208</b>	<b>255,110</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 17 August 2006 as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “HKSE”) until 5 November 2013 when its shares were delisted from the Growth Enterprise Market of the HKSE and listed on the Main Board of the HKSE by way of transfer of listing. Mr. Xie Yuehui, is the Chairman and Chief Executive Officer of the Company. The address of the registered office is PO Box 309, Uglan House, Grand Cayman, KY1-1104 Cayman Islands and the address of the principal place of business is Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, Guangdong Province, the PRC.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are development, manufacture and trading of advanced interventional medical devices for cardiovascular and peripheral vascular diseases and disorders.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company and the Group’s major operating subsidiaries.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

### Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the IASB for the first time in the current year:

Amendments to IFRS 11	Accounting for Acquisitions of Interest in Joint
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

The application of the amendments to the IFRSs in the current year has had no material impact on the Group’s financial performance and financial position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) - *continued*

**New and amendments to IFRSs issued but not yet effective**

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers and the related clarifications <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 7	Disclosure Initiative <sup>4</sup>
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

*IFRS 9 Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirement for financial assets.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) - *continued*

### **New and amendments to IFRSs issued but not yet effective - *continued***

#### *IFRS 9 Financial Instruments - continued*

Key requirements of IFRS 9 which are relevant to the Group are:

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 “Financial Instruments”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies as at 31 December 2016, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contracts with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the International Accounting Standards Board issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) - *continued*

**New and amendments to IFRSs issued but not yet effective - *continued***

*IFRS 16 Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB 10,036,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) - *continued*

### **New and amendments to IFRSs issued but not yet effective - *continued***

#### *Amendments to IAS 7 Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as described above, the directors of the Company anticipate that the application of these new and amendments to IFRSs will have no material impact on the Group’s consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.



3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### *Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted after re-attribution of the relevant equity component to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments", when applicable, the cost on initial recognition of an investment in an associate.

#### **Business combination**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Business combination - *continued***

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

**Investment in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Investment in associates - *continued***

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances, as appropriate.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

*Sales of goods*

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

*Service income*

Service income is recognised when services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Revenue recognition - *continued***

*Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

*Rental income*

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

*The Group as lessee*

Operating leases payments are recognised as an expense on a straight-line basis over the lease term.

*Leasehold land and building for own use*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lumpsum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### 3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### **Foreign currencies**

In preparing financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using the exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

#### **Borrowing cost**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income of government grants in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Government grants - *continued***

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit or loss for the year. Taxable profit differs from "Profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

### 3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### Taxation - *continued*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.



3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

**Intangible assets**

*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

*Internally-generated intangible assets - research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

### 3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### **Intangible assets - *continued***

##### *Internally-generated intangible assets - research and development expenditure - continued*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

#### **Impairment of tangible and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

### 3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### Financial instruments - *continued*

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past a normally allowed credit period of 30-180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

*Financial instruments - continued*

*Impairment of financial assets - continued*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

*Convertible notes*

Convertible notes issued by the Company that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative together is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Financial instruments - *continued***

*Other financial liabilities*

Other financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Share-based payment arrangements**

*Equity-settled share-based payment transactions*

*Share options granted to directors and employees*

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments granted at the grant date. Details regarding the determination of fair value of equity-settled share-based transactions are set out in note 31 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Share-based payment arrangements - *continued***

*Equity-settled share-based payment transactions - continued*

*Share options granted to directors and employees - continued*

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Capitalisation of development costs**

As at 31 December 2016, the carrying amount of the Group's development costs are approximately RMB99,247,000 (2015: approximately RMB72,296,000). The capitalisation involved management's judgement in assessing of whether technical and commercial feasibility had been achieved. Technical feasibility are evaluated based on testing results of products and commercial feasibility are evaluated based on forecast with assumption on revenue to be generated and relevant market analysis of the relevant product.

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY -  
*continued***

**Estimated impairment loss of trade receivables**

The Group makes provision for impairment loss of trade receivable based on an assessment of the recoverability of trade receivables. Impairment loss is applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the management's judgement and estimation of future cash flows. The Group takes into consideration the credit history including default or delay in payments, settlement records and aging analysis of the individual trade debtors. Where the actual outcome or expectation of the recoverability of trade receivables is different from original estimate, such difference will impact the carrying value of trade receivables and impairment loss or write back in the period in which the estimate has been changed.

As at 31 December 2016, the carrying amount of trade receivables of the Group is approximately RMB83,421,000 (net of allowance for doubtful debts of approximately RMB305,000) (2015: approximately RMB70,951,000 (net of allowance for doubtful debts of approximately RMB3,027,000)).

**Estimated useful lives and impairment of property, plant and equipment**

The Group's management determines the estimated useful lives, the residual value, and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assess impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

As at 31 December 2016, the carrying amount of property, plant and equipment is approximately RMB334,736,000 (2015: approximately RMB257,041,000).

**Estimated impairment of inventories**

The management of the Group reviews an aging analysis at the end of reporting period, and make allowance for obsolete and slow-moving inventory items that were identified to be no longer suitable for use. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out the inventories review on a product by product basis at the end of reporting period and make allowance for obsolete items.

As at 31 December 2016, the carrying amount of inventories of the Group is approximately RMB40,350,000 (2015: approximately RMB38,404,000).



4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY -  
*continued***

**Receivables for deposit for acquisition of long term investment/intangible assets**

As detailed in note 23(ii), the Group paid deposits for acquisition of long term investment/intangible assets to an independent third party for Project A (as defined in note 23(ii)) amounted to USD3,000,000 (equivalent to RMB18,752,000) and Project B (as defined in note 23(ii)) amounted to USD2,000,000 (equivalent to RMB12,600,000) in 2012. Deposit for Project A of RMB18,752,000 was fully impaired in previous years while the deposit for Project B of RMB12,600,000 was recognised as other receivables in the consolidated statement of financial position as at 31 December 2015.

During the year, the Group entered into a settlement agreement with this independent third party as detailed in note 23(ii). Pursuant to the settlement agreement, the management consider that no impairment loss is recognised in profit or loss for the deposit for Project B of RMB12,600,000 after considering the relationship with the independent third party and the subsequent refund of deposits amounted RMB6,300,000 in January 2017.

In respect of the deposit for Project A, the management consider that the impairment loss previously recognised should not be reversed since the third and final installment will only be settled in late 2018 and 2019 after the reporting date and there is uncertainty on its recoverability.

5. **CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in notes 28, net of cash and cash equivalents, and equity, comprising issued share capital and various reserves.

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure mainly through new share issues, as well as the issue of new debt or the redemption of existing debt.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	<u>764,782</u>	<u>352,213</u>
<b>Financial liabilities</b>		
Amortised cost	<u>298,429</u>	<u>237,439</u>
Conversion option derivative liability	<u>—</u>	<u>296,759</u>

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, bank balances and cash, trade and other payables, convertible notes (including both liability and derivative components) and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Market risk*

#### *Currency risk*

Certain bank balances, trade receivables, other receivables, trade and other payables and convertible notes (including both liability and derivative components) are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure by closely monitoring the movement of foreign currency rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

6. FINANCIAL INSTRUMENTS - *continued*

(b) Financial risk management objectives and policies - *continued*

*Market risk - continued*

*Currency risk - continued*

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities at the end of the reporting date are as follows:

	2016 RMB'000	2015 RMB'000
<b>Assets</b>		
United States Dollars ("USD")	324,482	42,636
Euro ("EUR")	24,036	14,510
Hong Kong Dollars ("HKD")	3,952	2,134
India Rupees ("INR")	17,218	14,420
<b>Liabilities</b>		
USD	5,951	3,587
EUR	2,769	1,722
HKD	6,340	393,973
INR	670	335

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates.

For the years ended 31 December 2016 and 2015, a positive (negative) number below indicates an increase (a decrease) in profit after tax where RMB strengthens 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

6. FINANCIAL INSTRUMENTS - *continued*

(b) Financial risk management objectives and policies - *continued*

*Market risk - continued*

*Currency risk - continued*

	2016 RMB'000	2015 RMB'000
<b>USD</b>		
Profit or loss	<u>(13,538)</u>	<u>(1,660)</u>
<b>EUR</b>		
Profit or loss	<u>(904)</u>	<u>(543)</u>
<b>HKD</b>		
Profit or loss	<u>101</u>	<u>16,653</u>
<b>INR</b>		
Profit or loss	<u>(703)</u>	<u>(599)</u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to the liability component of the investment in convertible note.

The Group is exposed to cash flow interest rate risk in relation to bank balances and bank borrowings. For bank borrowings, interest varies depending on the movements of Loan Prime Rate of China Construction Bank Corporation.

Management considers that the exposure of the Group to interest rate risk on its variable-rate bank balances is limited as the management does not anticipate a material change in interest rate on bank balances. Moreover, 50 basis points increase and decrease in Loan Prime Rate of China Construction Bank Corporation or RMB Benchmark Loan Rates is not significant to the consolidated financial statements. Accordingly, no sensitivity analysis is performed.

The management will consider hedging significant interest rate exposure should the needs arise.

6. FINANCIAL INSTRUMENTS - *continued*

(b) Financial risk management objectives and policies - *continued*

*Credit risk*

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds are limited because the counterparties are either state-owned banks in the PRC or banks with high credit ratings and quality.

The Group has concentration of credit risk as 74% (2015: 63%) of the total trade receivables was due from the Group's five largest customers within the structural heart diseases and peripheral vascular diseases business segments. The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 76% (2015: 68%) of the total debtors as at 31 December 2016.

The Group also has concentration of credit risk of the other receivable from an independent third party as detailed in note 23 (ii).

Other than the concentration of the credit risk on trade receivables and bank balances, the Group do not have any other significant concentration of credit risk.

*Liquidity risk*

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for convertible notes are based on the agreed repayment date.

6. FINANCIAL INSTRUMENTS - *continued*

(b) Financial risk management objectives and policies - *continued*

*Liquidity risk - continued*

The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is driven from interest rate at the end of reporting period.

*Liquidity and interest risk tables*

	Interest rate %	Repayable on demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Undiscounted cash flows RMB'000	Total carrying amount RMB'000
<b>At 31 December 2016</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables		11,422	53,292	33,715	—	98,429	98,429
Bank borrowings							
due within one year	5.13	—	—	32,852	—	32,852	20,000
due after one year	5.13	—	—	—	194,785	194,785	180,000
		11,422	53,292	66,567	194,785	326,066	298,429
<b>At 31 December 2015</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables		31,156	42,610	18,436	—	92,202	92,202
Bank borrowings due after one year	5.40	—	—	—	62,467	62,467	48,023
Convertible notes	16.64	—	—	—	131,060	131,060	97,214
		31,156	42,610	18,436	193,527	285,729	237,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

6. FINANCIAL INSTRUMENTS - *continued*

(c) Fair value measurements of financial instruments

*Fair value of the Group's financial liabilities that are measured at fair value on a recurring basis*

Some of the Group's financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial liability	Fair value as at		Fair Value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2016 RMB'000	2015 RMB'000				
<b>Financial liability</b>						
Conversion option derivative liability	—	296,759	Level 3 (Note i)	The Binomial Option Pricing Model. The key inputs are risk free rate for the yields to maturity of Hong Kong Exchange Fund Note and volatility of the share price from the comparable companies.	Volatility (Note ii)	The higher the volatility, the higher the fair value.

Notes:

- (i) Details of reconciliation of level 3 fair value measurement of conversion option derivative are set out in note 27. There were no transfers between the different levels of the fair value hierarchy for the year.
- (ii) If the volatility to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the conversion option derivative liability would increase/decrease by RMB169,000 and RMB12,000 respectively.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments or any reclassification of financial instruments in the year.

## 7. SEGMENT INFORMATION

The segment information reported internally was analysed on the basis of their products supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by executive directors of the Company, the chief operating decision makers, for the purposes of resource allocation and assessment of performance.

In prior years, information reported to the Company's executive directors, being the chief operating decision makers of the Group, in respect of the Group's business are focused on the congenital heart diseases business, peripheral vascular diseases business and surgical vascular repair business. In current year, the directors reconsider the significance of relative size of different business segment based on the latest development of the Groups' products, the Group changed the structure of its internal report reviewed by the Company's executive directors in order to present a more meaningful presentation of key products range of the Group and the relevant performance of different key product via different market.

This led to a change in the segment report for prior comparable period. The three previous operating and reportable segments, namely congenital heart diseases business, peripheral vascular diseases business and surgical vascular repair business have therefore been converted into structural heart diseases business, peripheral vascular diseases business and cardiac pacing and electrophysiology business.

The Group's operating segments under IFRSs 8 are as follows:

- Structural heart diseases business: trade, manufacture, research and development of devices related to structural heart diseases. The congenital heart diseases business and surgical vascular repair business in prior year have been combined as structural heart diseases business this year.
- Peripheral vascular diseases business: trade, manufacture, research and development of devices related to peripheral vascular diseases. This segment is consistent with prior year presentation and no change has been made in this year.
- Cardiac pacing and electrophysiology business: trade, manufacture, research and development of devices related to cardiac pacing and electrophysiology. This segment is newly identified in 2016.

Information regarding the above segments is reported below.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

7. SEGMENT INFORMATION - *continued*

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

**For the year ended 31 December 2016**

	Structural heart diseases business RMB'000	Peripheral vascular diseases business RMB'000	Cardiac pacing and electrophysiology business RMB'000	Total RMB'000
<b>SEGMENT REVENUE</b>				
External sales	124,454	228,395	—	352,849
Segment profit	91,565	184,969	—	276,534
Unallocated income				
– Finance income				1,721
– Other income and other gains and losses				22,491
– Gain on disposal of a subsidiary				203,848
Unallocated expense				
– Fair value and net exchange loss on convertible notes				(110,392)
– Selling and distribution expenses				(81,574)
– Administration expenses				(51,621)
– Research and development expenses				(57,525)
– Share of results of associates				(491)
– Finance costs				(16,041)
Profit before tax				186,950

7. SEGMENT INFORMATION - *continued*

(a) Segment revenue and results - *continued*

For the year ended 31 December 2015 (restated)

	Structural heart diseases business RMB'000	Peripheral vascular diseases business RMB'000	Cardiac pacing and electrophysiology business RMB'000	Total RMB'000
<b>SEGMENT REVENUE</b>				
External sales	142,629	168,977	—	311,606
Segment profit	111,844	140,732	—	252,576
Unallocated income				
– Finance income				1,825
– Other income and other gains and losses				10,265
– Share of results of associates				91
– Gain on disposal of a subsidiary				8,923
Unallocated expense				
– Fair value and net exchange loss on convertible notes				(65,644)
– Selling and distribution expenses				(73,600)
– Administration expenses				(47,567)
– Research and development expenses				(47,222)
– Finance costs				(13,251)
Profit before tax				26,396

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the gross profit earned by each segment without allocation of all other items of income and expenses, as set out above. This is the measure reported to the chief operating decision maker, the executive directors of the Company, for the purposes of resources allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

7. SEGMENT INFORMATION - *continued*

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

*Segment assets*

	2016 RMB'000	2015 RMB'000 (restated)
Operating segments:		
Structural heart diseases business	185,195	203,325
Peripheral vascular diseases business	372,262	248,135
Cardiac pacing and electrophysiology business	91,421	64,302
Total segment assets	648,878	515,762
Unallocated assets		
Property, plant and equipment	1,419	709
Investment properties	1,547	1,620
Deferred tax assets	18,153	14,822
Interests in associates	1,044	897
Other receivables and prepayments	13,819	12,967
Bank balances and cash	645,208	255,110
Consolidated assets	1,330,068	801,887

7. SEGMENT INFORMATION - *continued*

(b) Segment assets and liabilities - *continued*

*Segment liabilities*

	2016 RMB'000	2015 RMB'000 (restated)
Operating segments:		
Structural heart diseases business	9,899	5,474
Peripheral vascular diseases business	12,243	7,663
Cardiac pacing and electrophysiology business	9,968	10,602
Total segment liabilities	<b>32,110</b>	23,739
Unallocated liabilities		
Other payables	124,014	76,725
Tax payables	43,303	19,794
Government grants	60,046	59,359
Convertible notes	—	97,214
Conversion option derivative liability	—	296,759
Bank borrowings	200,000	48,023
Consolidated liabilities	<b>459,473</b>	621,613

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash, deferred tax assets, investment properties, certain other receivables and prepayments, certain property, plant and equipment, interests in associates, and
- only trade payables are allocated to operating segments in arriving at segment liabilities, which therefore exclude government grants (include current portion under other payables and non-current portion), tax payables, other payables, convertible notes, conversion option derivative liability and bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

7. SEGMENT INFORMATION - *continued*

(c) Other segment information

For the year ended 31 December 2016

	Structural heart diseases business RMB'000	Peripheral vascular diseases business RMB'000	Cardiac pacing and electrophysiology business RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or segment assets:					
Capital expenditure (Note)	33,825	62,074	24,706	—	120,605
Depreciation of property, plant and equipment	3,059	5,613	—	59	8,731
Amortisation of intangible assets	496	910	—	—	1,406
Write-down on inventories	1,750	3,212	—	—	4,962

For the year ended 31 December 2015 (restated)

	Structural heart diseases business RMB'000	Peripheral vascular diseases business RMB'000	Cardiac pacing and electrophysiology business RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or segment assets:					
Capital expenditure (Note)	84,511	100,122	61,406	—	246,039
Depreciation of property, plant and equipment	2,870	3,400	—	153	6,423
Amortisation of intangible assets	585	691	—	—	1,276
Write-down on inventories	2,518	2,982	—	—	5,500

Note: Capital expenditure includes additions to property, plant and equipment, intangible assets, prepaid lease payments and deposits for property, plant and equipment.

7. SEGMENT INFORMATION - *continued*

(d) Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers. Information about the Group's non-current assets is presented based on geographical locations of the assets.

	Revenue from external customers		Non-current assets	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
PRC (country of domicile)	283,836	239,474	490,970	383,197
Europe	16,896	20,249	1,441	728
India	22,055	21,574	158	157
Asia, excluding PRC and India	20,667	16,884	6	1,136
South America	7,367	11,571	—	—
Africa	145	171	—	—
Others	1,883	1,683	3	3
<b>Total</b>	<b>352,849</b>	<b>311,606</b>	<b>492,578</b>	<b>385,221</b>

Note: Non-current assets excluded deferred tax assets, interests in associates and other receivables as details in note 23.

(e) Information about major customers

No external customers of the Group individually contributed over 10% of the Group's revenue for each of the years ended 31 December 2016 and 2015.

8. OTHER INCOME AND OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Government grants (note 26)	9,139	8,333
Rental income	1,259	1,291
Losses on disposal of property, plant and equipment	(351)	(126)
Net foreign exchange gains, other than the net exchange gains on convertible notes	6,707	400
Consulting income	4,620	—
Others	1,117	367
	<b>22,491</b>	<b>10,265</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

9. FINANCE INCOME AND COSTS

	2016 RMB'000	2015 RMB'000
<b>Finance income from:</b>		
Interest income on bank deposits	1,721	1,096
Interest income on structured deposits	—	729
Finance income	<u>1,721</u>	<u>1,825</u>
<b>Interest expense on:</b>		
Effective interest expense on convertible notes (note 27)	(16,032)	(13,251)
Interest on bank borrowing	(9)	—
Finance costs	<u>(16,041)</u>	<u>(13,251)</u>
Finance costs, net	<u>(14,320)</u>	<u>(11,426)</u>

10. PROFIT BEFORE TAX

	2016 RMB'000	2015 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration (note 11)		
Directors' fee	400	384
Salaries, wages and other benefits	74,208	64,139
Performance related bonus	18,863	17,047
Share-based payment expenses	26,730	26,137
Retirement benefits scheme contributions	7,974	6,724
Less: capitalised in development costs, construction in progress and inventories	(27,032)	(21,481)
	<u>101,143</u>	<u>92,950</u>
Auditor's remuneration (including audit and non-audit services)	1,685	1,651
Impairment losses on trade receivables	1,324	2,722
Cost of inventories recognised as expenses (Note)	76,315	59,030
Depreciation of property, plant and equipment	8,731	6,423
Depreciation of investment properties	73	73
Amortisation of intangible assets	1,406	1,276
Release of prepaid lease payments	1,271	1,271
Gross rental income from investment properties	(1,259)	(1,291)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	73	73
	<u>(1,186)</u>	<u>(1,218)</u>

Note: For the year end 31 December 2016, cost of inventories recognised as expenses included write-down on inventories of approximately RMB4,962,000 (2015: approximately RMB5,500,000).

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the directors and chief executive by the Group disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

### For the year ended 31 December 2016

	Contributions					Total RMB'000
	Directors' fee RMB'000	Salaries and other benefits RMB'000	to retirement benefits scheme RMB'000	Incentive performance bonus RMB'000	Share- based payment RMB'000	
Executive directors:						
Mr. Xie Yuehui (i)	—	1,104	52	—	4,330	5,486
Mr. Liu Jianxiong (ii)	—	1,015	52	635	3,711	5,413
Ms. Xiao Ying(iii)	—	418	52	20	351	841
Non-executive directors:						
Mr. Wu Jianhui (vii)	—	—	—	—	—	—
Mr. Monaghan Shawn Del (iv)	—	—	—	—	—	—
Mr. Jiang Feng	96	—	—	—	—	96
Mr. Cleary Christopher Michael (v)	—	—	—	—	—	—
Independent non-executive directors:						
Mr. Liang Hsien Tse Joseph	96	—	—	—	—	96
Mr. Zhou Gengshen (vi)	24	—	—	—	—	24
Mr. Zhou Luming	96	—	—	—	—	96
Mr. Wang Wansong (vi)	88	—	—	—	—	88
	400	2,537	156	655	8,392	12,140



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS - *continued*

For the year ended 31 December 2015

	Contributions					Total RMB'000
	Directors' fee RMB'000	Salaries and other benefits RMB'000	to retirement benefits scheme RMB'000	Incentive performance bonus RMB'000	Share- based payment RMB'000	
Executive directors:						
Mr. Xie Yuehui (i)	—	800	43	538	3,639	5,020
Mr. Zhao Yiwei (i)	—	—	—	—	—	—
Mr. Liu Jianxiong (ii)	—	769	43	1,202	3,120	5,134
Non-executive directors:						
Mr. Wu Jianhui (vii)	—	—	—	—	—	—
Mr. Monaghan Shawn Del (iv)	—	—	—	—	—	—
Mr. Liddicoat John Randall (iv)	—	—	—	—	—	—
Mr. Jiang Feng	96	—	—	—	—	96
Mr. Cleary Christopher Michael (v)	—	—	—	—	—	—
Mr. Martha Geoffrey Straub (v)	—	—	—	—	—	—
Independent non-executive directors:						
Mr. Liang Hsien Tse Joseph	96	—	—	—	—	96
Mr. Zhou Gengshen (vi)	96	—	—	—	—	96
Mr. Zhou Luming	96	—	—	—	—	96
	384	1,569	86	1,740	6,759	10,538

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 31 to the Group's consolidated financial statements.

Notes:

- (i) On 2 March 2015, Mr. Zhao Yiwei resigned as an executive director and the Chief Executive Officer ("CEO") of the Company. Mr. Xie Yuehui was appointed as the CEO of the Company on 2 March 2015 and his emoluments disclosed above for the year ended 31 December 2015 include those services rendered by him as the CEO. Mr. Zhao Yiwei was the CEO of the Company before 2 March 2015 and his emoluments disclosed above for the year ended 31 December 2015 include those for services rendered by him as the CEO.
- (ii) Mr. Liu Jianxiong was appointed as non-executive director of the Company on 2 March 2015 and re-designated as executive director of the Company on 27 March 2015.
- (iii) Ms. Xiao Ying was appointed as executive director of the Company on 28 March 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS - *continued*

Notes: - *continued*

- (iv) Mr. Liddicoat John Randall resigned as non-executive director of the Company and Mr. Monaghan Shawn Del was appointed as non-executive director of the Company on 27 March 2015.
- (v) Mr. Martha Geoffrey Straub resigned as non-executive director of the Company and Mr. Cleary Christopher Michael was appointed as non-executive director of the Company on 27 August 2015.
- (vi) Mr. Zhou Gengshen resigned as independent non-executive director and Mr. Wang Wansong was appointed as independent non-executive director of the Company on 29 January 2016.
- (vii) Mr. Wu Jianhui resigned as non-executive director of the Company on 28 March 2016.

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors (one of them is also the Chief Executive Officer) whose emolument is included above. The emoluments of the remaining three (2015: three) individuals were as follows:

	2016 RMB'000	2015 RMB'000
Employees		
– share-based payment	5,164	6,611
– salaries and other benefits	3,517	3,242
– performance related bonus	1,478	1,329
– contributions to retirement benefits scheme	121	70
	<b>10,280</b>	<b>11,252</b>

Their emoluments were within the following bands:

	2016 Number of employees	2015 Number of employees
HKD1,000,001 to HKD1,500,000	—	—
HKD1,500,001 to HKD2,000,000	—	1
HKD2,000,001 to HKD2,500,000	2	—
HKD3,000,001 to HKD3,500,000	—	—
HKD5,500,001 to HKD6,000,000	—	1
HKD6,000,001 to HKD6,500,000	—	1
HKD6,500,001 to HKD7,000,000	1	—
	<b>3</b>	<b>3</b>

For each of the two years ended 31 December 2016 and 2015, no emoluments were paid by the Group to any of the directors and the chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors nor the chief executive waived or agreed to waive during any emoluments the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

12. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax charge:		
PRC Enterprise Income Tax ("PRC EIT")	44,571	23,098
Deferred tax (credit) charge (note 19):		
Current year	(3,331)	(727)
	<u>41,240</u>	<u>22,371</u>

The Company is tax exempted under the laws of the Cayman Islands. New Centre International Limited 新城市國際有限公司, a subsidiary of the Company, is subject to Hong Kong Profits Tax rate of 16.5% on assessable profits earned in Hong Kong. No provision for Hong Kong Profits Tax has been made for the two years ended 31 December 2016 and 2015 as the income of New Centre International Limited 新城市國際有限公司 neither arises in, nor is derived from, Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except that one major operating subsidiary in the PRC was qualified as High and New Technology Enterprise since 2009, and is entitled to a preferential income tax rate of 15%. The qualification granted in September 2014 of High and New Technology Enterprises is subject to review once every three years and the one major operating subsidiary continued to be recognised as a hi-tech enterprise for the two years ended 31 December 2016 and 2015.

The applicable income tax rate of Lifetech Scientific India Private Ltd. ("Lifetech India") in the jurisdiction of India is 30.9% on its taxable profits. No provision for profit tax in India has been made for the two years ended 31 December 2016 and 2015 as there is no assessable profits for the two years ended 31 December 2016 and 2015.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

12. INCOME TAX EXPENSE - *continued*

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	186,950	26,396
Tax at the applicable tax rate of 15% (2015: 15%) (Note)	28,043	3,959
Tax effect of share of result of an associate	(22)	(32)
Tax effect of expenses not deductible for tax purpose	21,394	18,603
Tax effect of tax losses not recognised	257	2,157
Tax effect of additional deductible research and development expenditure	(1,752)	(2,004)
Tax effect of income not taxable for tax purpose	(6,695)	(375)
Effect of different tax rates of subsidiaries operating in other jurisdictions	15	63
Income tax expense for the year	41,240	22,371

Note: As the applicable tax rate used in current year has been changed from 25% in prior year to 15% which represents the prevail income tax rate of the major operating subsidiary which constitutes the substantial part of the Group's operations, prior year reconciliation have been represented using the tax rate of 15% for comparison purposes.

13. DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2016 and 2015, nor any dividend proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2016 RMB'000	2015 RMB'000
<b>Earnings:</b>		
Earnings for the purposes of basic and diluted earnings per share	<u>145,652</u>	<u>2,359</u>
	2016 '000	2015 '000
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,002,689	4,000,000
Effect of dilutive potential ordinary shares: share options	<u>1,068</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,003,757	4,000,000

The computation of diluted earnings per share for the year ended 31 December 2016 does not assume the exercise of certain of the Company's options since the average market price of the Company's share is lower than the adjusted exercise price of those options.

The computations of diluted earnings per share for the years ended 31 December 2016 and 2015 do not assume the conversion of convertible notes because the conversion of convertible notes would result in an increase in earnings per share.

The computation of diluted earnings per share for the year ended 31 December 2015 does not assume the exercise of all of the Company's options since the average market price of the Company's share is lower than the adjusted exercise price of those options.

The calculation of basic and diluted earnings per share for the year ended 31 December 2015 have been adjusted as a result of the share subdivision on 12 January 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Plant and machinery RMB'000	Leasehold improvement RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2015	24,260	37,727	10,032	9,503	5,705	87,227
Exchange realignment	—	—	—	(1)	(28)	(29)
Additions	185,873	19,509	675	2,785	—	208,842
Disposal of a subsidiary (Note 33)	—	(1,841)	—	(555)	(258)	(2,654)
Disposals	—	(108)	—	(783)	(572)	(1,463)
At 31 December 2015	210,133	55,287	10,707	10,949	4,847	291,923
Exchange realignment	—	1	—	36	210	247
Additions	73,997	10,028	1,244	2,286	638	88,193
Transfer	(157)	157	—	—	—	—
Disposal of a subsidiary (Note 33)	—	(3,460)	(807)	(490)	(551)	(5,308)
Disposals	—	(221)	—	(64)	(943)	(1,228)
<b>At 31 December 2016</b>	<b>283,973</b>	<b>61,792</b>	<b>11,144</b>	<b>12,717</b>	<b>4,201</b>	<b>373,827</b>
<b>ACCUMULATED DEPRECIATION</b>						
At 1 January 2015	—	17,964	7,065	4,801	1,963	31,793
Exchange realignment	—	7	—	21	(2)	26
Provided for the year	—	3,468	996	1,433	526	6,423
Disposal of a subsidiary (Note 33)	—	(1,596)	—	(407)	(92)	(2,095)
Eliminated on disposals	—	(84)	—	(758)	(423)	(1,265)
At 31 December 2015	—	19,759	8,061	5,090	1,972	34,882
Exchange realignment	—	9	—	9	(53)	(35)
Provided for the year	—	4,505	1,892	1,819	515	8,731
Disposal of a subsidiary (Note 33)	—	(2,500)	(703)	(229)	(380)	(3,812)
Eliminated on disposals	—	(217)	—	(41)	(417)	(675)
<b>At 31 December 2016</b>	<b>—</b>	<b>21,556</b>	<b>9,250</b>	<b>6,648</b>	<b>1,637</b>	<b>39,091</b>
<b>CARRYING VALUES</b>						
<b>At 31 December 2016</b>	<b>283,973</b>	<b>40,236</b>	<b>1,894</b>	<b>6,069</b>	<b>2,564</b>	<b>334,736</b>
At 31 December 2015	210,133	35,528	2,646	5,859	2,875	257,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY, PLANT AND EQUIPMENT - *continued*

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, after taking into account of their residual values, at the following rates per annum:

Plant and machinery	10% - 20%
Leasehold improvement	20% - 33.3%
Furniture, fixtures and equipment	20%
Motor vehicles	10%

16. INVESTMENT PROPERTIES

	RMB'000
<b>COST</b>	
At 1 January 2015, 31 December 2015 and 2016	2,601
<b>DEPRECIATION</b>	
At 1 January 2015	908
Provided for the year	73
At 31 December 2015	981
Provided for the year	73
At 31 December 2016	1,054
<b>CARRYING VALUES</b>	
At 31 December 2016	1,547
At 31 December 2015	1,620

The estimated fair value of the Group's investment properties at 31 December 2016 was approximately RMB 39,010,000(2015: approximately RMB40, 537,000). The estimated fair value has been arrived at on the basis of a valuation carried out on the respective dates by 北京中鋒資產評估有限公司深圳分公司, an independent qualified professional valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions. In estimating the fair value of the properties, the highest and best use of the properties is their current use and the fair value measurements for all of the Group's properties are categorised as Level 3 (see note 3 for details). The significant unobservable input is the monthly market rent, taking into account the differences in location and size, between the comparable and the property. There has been no change from the valuation technique used in the prior year.

The above investment properties including buildings are depreciated on a straight-line basis over 38 years.

17. INTANGIBLE ASSETS

	Patents RMB'000	Licences RMB'000	Computer software RMB'000	Development costs RMB'000	Total RMB'000
<b>COST</b>					
At 1 January 2015	9,045	5,631	1,844	45,594	62,114
Additions	—	—	964	26,702	27,666
Disposal of a subsidiary (Note 33)	(4,420)	(2,952)	—	—	(7,372)
At 31 December 2015	4,625	2,679	2,808	72,296	82,408
Additions	—	—	530	33,400	33,930
Transfer	6,449	—	—	(6,449)	—
Disposal of a subsidiary (Note 33)	—	—	(22)	—	(22)
<b>At 31 December 2016</b>	<b>11,074</b>	<b>2,679</b>	<b>3,316</b>	<b>99,247</b>	<b>116,316</b>
<b>ACCUMULATED AMORTISATION</b>					
At 1 January 2015	3,724	4,641	654	—	9,019
Provided for the year	784	177	315	—	1,276
Disposal of a subsidiary (Note 33)	(3,917)	(2,139)	—	—	(6,056)
At 31 December 2015	591	2,679	969	—	4,239
Provided for the year	785	—	621	—	1,406
Disposal of a subsidiary (Note 33)	—	—	(22)	—	(22)
<b>At 31 December 2016</b>	<b>1,376</b>	<b>2,679</b>	<b>1,568</b>	<b>—</b>	<b>5,623</b>
<b>CARRYING VALUES</b>					
<b>At 31 December 2016</b>	<b>9,698</b>	<b>—</b>	<b>1,748</b>	<b>99,247</b>	<b>110,693</b>
At 31 December 2015	4,034	—	1,839	72,296	78,169

The intangible assets are amortised on a straight-line basis over the estimated useful lives:

Patents	8 - 10 years
Licences	8 - 10 years
Computer software	3 - 10 years

All of the Group's computer software was acquired from third parties. Licences and certain of the above patents were purchased as part of a business combination in prior years. As at 31 December 2016, approximately RMB9,698,000 (2015: approximately RMB4,034,000) patents was internally generated.

Development costs are internally generated. The development costs represent design, development, production of certain structural heart diseases products, peripheral vascular diseases products and cardiac pacing and electrophysiology diseases products. The estimated useful lives of these projects are determined based on expected period of time to generate probable future economic benefits for the Group from the projects.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

18. PREPAID LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
Current asset	1,271	1,271
Non-current asset	31,987	33,258
	<b>33,258</b>	<b>34,529</b>

The Group's prepaid lease payments represent payment for land use rights of 30 years in the PRC and are pledged to the bank to secure for the bank borrowings (note 28).

19. DEFERRED TAXATION ASSETS

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Government grant RMB'000	Impairment loss on trade receivables RMB'000	Impairment loss on inventories RMB'000	Share option incentive RMB'000	Unrealised profit on inventories RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	5,027	504	78	—	7,624	923	14,156
Credit (charge) to profit or loss	3,942	(458)	(5)	—	(3,863)	1,111	727
Disposal of a subsidiary (Note 33)	—	—	—	—	—	(61)	(61)
At 31 December 2015 and 1 January 2016	8,969	46	73	—	3,761	1,973	14,822
Credit (charge) to profit or loss	167	16	106	3,575	(1,180)	647	3,331
<b>At 31 December 2016</b>	<b>9,136</b>	<b>62</b>	<b>179</b>	<b>3,575</b>	<b>2,581</b>	<b>2,620</b>	<b>18,153</b>

19. DEFERRED TAXATION ASSETS - *continued*

At the end of the reporting period, the Group has unused tax losses of approximately RMB61,719,000 (2015: approximately RMB89,200,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are approximately RMB61,719,000 (2015: approximately RMB63,603,000) that may be carried forward indefinitely. Details of the remaining unrecognised tax losses that will be expired as followings:

	2016 RMB'000	2015 RMB'000
Unrecognised tax losses with expiry in:		
2016	—	4,089
2017	—	4,060
2018	—	6,514
2019	—	7,844
2020	—	3,090
	—	25,597

The above unrecognised loss of approximately RMB25,597,000 was eliminated resulting from the disposal of the relevant subsidiary during the year.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB613,606,000 (2015: approximately RMB369,887,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

20. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investments, unlisted	1,109	1,109
Share of post-acquisition reserves	(65)	(212)
	<u>1,044</u>	<u>897</u>

Details of the Group's associate at the end of the reporting periods are as follows:

Name of entity	Proportion of Ownership interest and voting rights held by the Group		Place of establishment/ operation	Registered capital	Principal activity
	2016	2015			
Shenzhen EnKe Medical Technology Co., Ltd. ("Enke Medical") 深圳市恩科醫療科技有限公司	49%	49%	The PRC	RMB1,000,000	Trading of medical devices

The above associate is accounted for using the equity method in these consolidated financial statements. The financial information of the Group's associate is prepared using uniform accounting policies in conformity with the accounting policies adopted by the Group.

Information of Enke Medical that is not individually material is set out below:

**Enke Medical**

	2016 RMB'000	2015 RMB'000
The Group's share of (loss) profit of Enke Medical	(491)	91
The Group's share of other comprehensive income of Enke Medical	—	—
The Group's share of total comprehensive (expense) income of Enke Medical	(491)	91
Carrying amount of the Group's interest in Enke Medical	<u>1,044</u>	<u>897</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

21. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	25,321	18,555
Work in progress	6,392	11,024
Finished goods	8,637	8,825
	<b>40,350</b>	<b>38,404</b>

22. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	83,726	73,978
Less: allowance for doubtful debts	(305)	(3,027)
	<b>83,421</b>	<b>70,951</b>

As at 31 December 2015, included in trade receivables are trade balances with a shareholder of approximately RMB307,000 and an associate of approximately RMB2,066,000. These amounts were fully received during the year ended December 2016 and no outstanding balances with them as at 31 December 2016. Details of the relevant transactions are set out in note 37(a).

Trade receivables are mainly arisen from sales of medical devices. No interest is charged on the trade receivables.

The Group normally allows a credit period of 30 to 180 days (2015: 30 to 180 days) to its trade customers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2016 RMB'000	2015 RMB'000
1 to 90 days	65,961	51,159
91 to 180 days	13,298	8,658
181 to 365 days	2,422	6,149
Over 365 days	1,740	4,985
	<b>83,421</b>	<b>70,951</b>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

Trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

22. TRADE RECEIVABLES - *continued*

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately RMB10,784,000 (2015: approximately RMB20,186,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The management of the Group reviews the aging analysis at the end of reporting period and satisfied with the continuous subsequent settlement on the trade receivable balance, as a result, the impairment of trade receivable is estimated to be insignificant.

Aging of past due but not impaired trade receivables

	2016 RMB'000	2015 RMB'000
Age:		
Within 90 days	3,280	4,754
91 - 180 days	4,408	7,623
181 - 365 days	1,488	5,526
Over 365 days	1,608	2,283
	<b>10,784</b>	<b>20,186</b>

Movement in the allowance for doubtful debts

	2016 RMB'000	2015 RMB'000
At 1 January	3,027	3,356
Impairment losses recognised on receivables	1,324	2,722
Amount written off during the year as uncollectible	<b>(4,046)</b>	<b>(3,051)</b>
At 31 December	<b>305</b>	<b>3,027</b>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB305,000 (2015: approximately RMB3,027,000) of which the debtors were in financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

23. OTHER RECEIVABLES AND PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Other debtors (Note i)	21,988	12,174
Receivables for deposits paid for acquisition of long term investment/intangible assets		
– due within one year (Note ii)	6,300	12,600
Prepayments	3,430	3,514
Advance to employees	8,041	5,167
Rental deposits	1,565	1,378
Other deposits	419	378
	<b>41,743</b>	<b>35,211</b>
Receivables for deposits paid for acquisition of long term investment/intangible assets		
– due after one year (Note ii)	<b>6,300</b>	—

Notes:

- (i) Amounts are unsecured and interest-free. In the opinion of the directors, the Group will demand for repayments within one year from the end of reporting period and the amounts are therefore considered as current.
- (ii) The Group entered into a strategic partnership agreement with an independent third party, which manages and operates an investment fund, on 12 April 2012, to enter into a long-term strategic alliance and equal partnership to collaborate across incubation projects over the period up to 12 April 2014. Deposit for acquisition of long term investment represents the consideration of USD3,000,000 paid by the Group for the acquisition of options, on a priority basis, to invest or co-invest in any and/or all incubation projects and to acquire distribution rights, manufacturing rights and intellectual property licenses with respect to the incubation projects (“Project A”). The Group has the right to join and be a member of the investment committee of the investment fund. Further, the Group has the rights to request for all or a portion of the deposit to be converted to one or more incubation projects investments. The deposit is non-refundable. On 10 April 2014, the Group entered into a supplementary agreement to the strategic partnership agreement to extend the project period from 12 April 2014 to 12 September 2014. In 2014, the management determined the recoverable amount of the deposit for acquisition of the long term investment was less than the carrying amount and, accordingly, the deposit for acquisition of the long term investment was fully impaired.

The Group entered into an agreement with the same independent third party as that mentioned above on 15 May 2012 to obtain the priority for acquiring the exclusive distribution right to sell the designated products (“Project B”). The Group deposited USD2,000,000 (equivalent to RMB12,600,000) in 2013 to the independent third party and the covering period of the agreement is up to 1 April 2016 (36 months after the receipt of the deposit as defined in the agreement). According to the agreement, in the event the CE certification is not obtained by the independent third party within 36 months from 15 May 2012 (i.e. up to 15 May 2015), the deposit is refundable to the Group. Up to 15 May 2015, the relevant certificate was not obtained by the independent third party. The deposit then became refundable to the Group and the Group has informed the independent third party in written to request for the refund of the deposit and, accordingly, the deposit is classified as other receivables as at 31 December 2015.

On 14 December 2016, the Group entered into a settlement agreement with the independent third party in which the independent third party agree to refund the deposit of Project A of USD3,000,000 (equivalent to RMB18,752,000) and the deposit of Project B USD2,000,000 (equivalent to RMB12,600,000) to the Group based on the following settlement terms: first installment of RMB6,300,000 on or before 27 January 2017; second installment of RMB6,300,000 on or before 27 January 2018; third installment of RMB6,300,000 on or before 31 December 2018; and final installment of RMB12,452,000 on or before 31 December 2019.

The management of the Company considered that no impairment loss was recognised in profit or loss for the deposit on Project B of USD 2,000,000 (equivalent to RMB12,600,000) after considering the relationship with the independent third party and the subsequent settlement of the first installment of deposit of RMB6,300,000 in January 2017. As the second installment is due on or before 27 January 2018, the amount of RMB6,300,000 has been reclassified as non-current asset.

In respect of the deposit for Project A, the management of the Company is of the opinion that impairment loss previously recognised should not be reversed since the third and final installment will only be settled in late 2018 and 2019 after the reporting date and there is uncertainty on its recoverability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

24. BANK BALANCES AND CASH

The Group's bank balances carry interest at prevailing market rates which range from 0.01% to 0.30% (2015: 0.01% to 0.30%) per annum.

25. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	32,110	23,739
Other payables:		
Government grants (note 26)	1,690	930
Accrued payroll and bonus	25,439	20,431
Other payables	7,606	2,315
Construction payables	8,664	28,637
Accrued expenses	24,517	17,080
Value-added tax payables	7,383	5,099
Receipt in advance from customers	579	692
Deferred income on consulting services (note)	47,379	—
Other tax payables	2,447	2,471
	<b>125,704</b>	<b>77,655</b>
	<b>157,814</b>	<b>101,394</b>

Note: As detailed in note 33, the Group disposal of a subsidiary, Beijing PerMed Biomedical Engineering Co., Ltd. ("Beijing PerMed") to an independent third party ("Purchaser") (the "Disposal"). Pursuant to an consulting agreement signed between the Group and the Purchaser, the Group is engaged to provide consulting services to the Purchaser for a period of 12 months at a consideration of USD8,000,000 (approximately to RMB55,358,000) in respect of (i) assist the Purchaser in integration and consolidation of the business of Beijing PerMed after the completion of the Disposal; (ii) assist the Purchaser in mastering know-how and process related to the work products under relevant agreement; and (iii) assist the Purchaser in establishing stable and continuous business relationship between PerMed and suppliers of PerMed. During the year, the Group received USD7,500,000 (approximately to RMB51,999,000) and the remaining USD500,000 (approximately RMB3,359,000) will be received after nine months of the date of consulting agreement. An amount of RMB4,620,000 was recognised as other income upon the services rendered during the year.

Included in trade payables is trade balances with a shareholder of approximately RMB24,045,000 (2015: approximately RMB13,509,000). Included in other payables is balances with a shareholder of approximately RMB5,377,000 (2015: nil). Details of the relevant transactions are set out in note 37(a).

25. TRADE AND OTHER PAYABLES (continue)

The credit period granted by suppliers to the Group ranged from 30 to 120 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
0 - 30 days	19,659	17,119
31 - 60 days	7,428	4,295
61 - 90 days	4,219	2,052
91 - 120 days	158	69
Over 120 days	646	204
	<b>32,110</b>	<b>23,739</b>

26. GOVERNMENT GRANTS

Government grants include subsidies in relation to the acquisition of plant and equipment and the research and development of medical devices. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. During the year ended 31 December 2016, approximately RMB5,725,000 (2015: approximately RMB7,083,000) and approximately RMB4,100,000 (2015: approximately RMB27,750,000) subsidies relating to research and development of medical devices and the acquisition of plant and equipment, respectively, have been received. The Group recognised income of approximately RMB9,139,000 (2015: approximately RMB8,333,000) during the year ended 31 December 2016.

The current portion of government grants, which include subsidies in relation to research and development of medical devices that have not yet been recognised in profit or loss, are included in other payables (note 25). The non-current portion of government grants, which include subsidies in relation to the acquisition of plant and equipment that have not yet been recognised in profit or loss, are included in non-current liability.

27. CONVERTIBLE NOTES

On 30 January 2013, the Company issued HKD152,000,000 unsecured 1% Convertible Notes due 2018. The Convertible Notes bear interest at 1% per annum and will mature on 29 January 2018. The holder of the Convertible Notes, a shareholder of the Company, has the right to convert the principal amount of Convertible Notes into shares of the Company at an initial conversion price of HKD3.8 per share. The conversion price was adjusted to HKD0.475 per share upon the share subdivision effective from 12 January 2015.

Based on the issued and outstanding Convertible Notes in the principal amount of HK\$152,000,000 as at 9 January 2015, the number of shares to be allotted and issued to the holder of the outstanding Convertible Notes was adjusted from 40,000,000 shares to 320,000,000 shares as a result of the share subdivision. Further details of the share subdivision and the adjustments to the convertible notes were set out in the announcements of the Company dated 9 January 2015.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

27. CONVERTIBLE NOTES - *continued*

The noteholder will have the right at noteholder's option, to require the Company to redeem all, or only some, of the Convertible Notes prior to the Maturity Date at a price equal to their principal amount and interest accrued to the date fixed for redemption subject to the occurrence of specific events as defined in the terms and conditions of the convertible notes agreement.

The Convertible Notes contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 16.64% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

The Convertible Notes were fully converted into 320,000,000 Shares on 29 December 2016.

The movement of the liability component and conversion option derivative of the Convertible Notes for the year is set out as below:

	Liability component RMB'000	Conversion option derivative RMB'000
At 1 January 2015	78,483	236,595
Exchange realignment	5,480	16,447
Interest charge (note 9)	13,251	—
Fair value loss	—	43,717
At 31 December 2015	97,214	296,759
Exchange realignment	7,554	24,082
Interest charge (note 9)	16,032	—
Coupon interest payable	(5,377)	—
Fair value loss	—	78,756
Exercised during the year	(115,423)	(399,597)
At 31 December 2016	—	—

The fair value of the conversion option derivative component of the Convertible Notes is estimated using a Binomial Option Pricing Model ("Binomial Model"). The key inputs to the Binomial Model as of 29 December 2016 were as follows:

	29 December 2016	31 December 2015
Risk-free interest rate (i)	0.93%	1.016%
Expected volatility (ii)	42.92%	50.00%

Notes:

- (i) Risk-free interest rate used was by reference to Hong Kong Exchange Fund Note at the valuation date.
- (ii) Expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price of the historical movement of the Company itself.

27. CONVERTIBLE NOTES - *continued*

The fair values were determined by the directors with reference to valuation report carried out by an independent qualified professional valuer, Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group.

28. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Secured bank borrowings	200,000	48,023
The carrying amounts of the above borrowings are repayable*:		
Within one year	20,000	—
Within a period of more than one year but not exceeding two years	50,000	20,000
Within a period of more than two years but not exceeding five years	130,000	28,023
	200,000	48,023
Less: Amounts due within one year shown under current liabilities	20,000	—
Amounts shown under non-current liabilities	180,000	48,023

\* The amounts due are based on scheduled repayment dates set out in the loan agreements.

All borrowings are denominated in RMB, which carried interest at 108% of Loan Prime Rate of China Construction Bank Corporation per annum. The effective interest rate is 5.13% as at 31 December 2016 (2015: 5.4%).

The Group has pledged the prepaid lease payments with a carrying amount of approximately RMB33,258,000 (2015: approximately RMB34,529,000) to bank to secure banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

29. SHARE CAPITAL

	Number of shares	Amount USD
<b>Ordinary shares</b>		
Authorised:		
At 1 January 2015 at USD0.00001 each	5,000,000,000	50,000
Effect of subdivision (note)	35,000,000,000	N/A
At 31 December 2015 and 2016 at USD0.00000125 each	40,000,000,000	50,000

	Number of shares	Amount USD	Shown in the consolidated statement of financial position as RMB'000
Issued and fully paid:			
At 1 January 2014 and 31 December 2014 at USD0.00001 each	500,000,000	5,000	32
Effect of subdivision (note)	3,500,000,000	N/A	N/A
At 31 December 2015 at USD0.00000125 each	4,000,000,000	5,000	32
Exercise of share options	811,600	1	—
Conversion of convertible notes (note 27)	320,000,000	400	3
At 31 December 2016 at USD0.00000125 each	4,320,811,600	5,401	35

Note: On 9 January 2015, the Company announced that the ordinary resolution of share subdivision was duly passed by the shareholders by way of poll at the extraordinary general meeting on that date. With effective from 12 January 2015, every 1 share in the capital of the Company (including every issued and unissued ordinary share of US\$0.00001) was subdivided into 8 subdivided shares of US\$0.00000125 each, and such subdivided share ranked pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the memorandum and articles of association of the Company. Details of the approval of share subdivision was set out in the announcement of the Company dated 9 January 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	1,419	445
Interests in subsidiaries	141,091	122,050
	<b>142,510</b>	122,495
<b>Current assets</b>		
Other receivables	717	368
Amounts due from subsidiaries	144,668	131,237
Bank balances and cash	63,590	25,942
	<b>208,975</b>	157,547
<b>Current liability</b>		
Other payables	59,043	842
<b>Net current assets</b>	<b>149,932</b>	156,705
<b>Total assets less current liability</b>	<b>292,442</b>	279,200
<b>Non-current liabilities</b>		
Convertible notes	—	97,214
Conversion option derivative liability	—	296,759
	—	393,973
<b>Net Assets (liabilities)</b>	<b>292,442</b>	(114,773)
<b>Capital and Reserves</b>		
Share capital	35	32
Share premium and reserves	292,407	(114,805)
<b>Total equity (deficit)</b>	<b>292,442</b>	(114,773)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY - *continued*

**Movement in reserves**

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	251,593	—	(302,234)	(50,641)
Recognition of equity-settled share base payment	—	26,137	—	26,137
Loss and the total comprehensive expense for the year	—	—	(90,301)	(90,301)
At 31 December 2015	251,593	26,137	(392,535)	(114,805)
Recognition of equity-settled share base payment	—	26,730	—	26,730
Conversion of convertible notes	515,017	—	—	515,017
Exercise of share options	1,645	(588)	—	1,057
Share option lapsed during the year	—	(406)	406	—
Loss and the total comprehensive expense for the year	—	—	(135,592)	(135,592)
At 31 December 2016	768,255	51,873	(527,721)	292,407

31. SHARE - BASED PAYMENT TRANSACTION

**Share option scheme**

The Company has adopted a share option scheme (the "Scheme") on 22 October 2011 and was amended by unanimous written resolutions of the board on 5 May 2015. The purpose of the Scheme is to enable the Company to grant options to full-time or part-time employees, directors (including executive, non-executive or independent non-executive) and any consultants or advisers (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of our subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

Subject to the fulfilment of the conditions of the Scheme and the earlier termination by shareholders' resolution in general meeting or the board, the Scheme shall be valid and effective for a period of ten years commencing from 22 October 2011, after which period no further options will be offered or granted but the provisions of the Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the Scheme.

31. SHARE - BASED PAYMENT TRANSACTION - *continued*

Share option scheme - *continued*

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Group must not, in aggregate, exceed 10% of the issued share capital of the Company as at the listing date (the "Scheme Mandate Limit") (such 10% being equivalent to 400,000,000 shares based on 4,000,000,000 subdivided shares in issue) unless shareholders' approval has been obtained. Any options lapsed in accordance with the terms of the Scheme or any other share option scheme of the Group shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Unless approved by the shareholders in the manner set out in the Scheme, the total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options under the Scheme) in any 12-month period must not exceed 1% of the issued share capital of the Company.

An offer of grant of an option shall remain open for acceptance by the Eligible Participant concerned for such period as determined by the board, which period shall not be more than fourteen days from the date of the offer, provided that no such offer shall be open for acceptance after the tenth anniversary of the 22 October 2011 or after the Scheme has been terminated in accordance with the provisions thereof. Upon acceptance of the offer, the grantee shall pay HK\$1 to the Company by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price.

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Scheme. However, the board may offer to grant any options subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance targets to be achieved before such options can be exercised as the board may determine in its absolute discretion.

The subscription price for shares in respect of any particular option granted under the Scheme shall be such price as the board shall determine, provided that such price shall be at least the highest of (i) the closing price per share as stated in the HKSE's daily quotation sheet on the date of offer of the option; (ii) the average closing price per share as stated in the HKSE's daily quotation sheets for the five business days immediately preceding the date of offer of the option; and (iii) the nominal value of a share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

31. SHARE - BASED PAYMENT TRANSACTION - *continued*

Share option scheme - *continued*

The following table discloses movements in the Company's share options held by directors and employees during the year ended 31 December 2016:

Types	Number of shares subject to share options			
	Outstanding at 1 January 2016	Exercised during the year	Lapsed during the year (Note)	Outstanding at 31 December 2016
Batch I	28,150,400	(811,600)	(1,390,000)	25,948,800
Batch II	28,150,400	—	(2,132,000)	26,018,400
Batch III	28,150,400	—	(2,132,000)	26,018,400
Batch IV	28,150,400	—	(2,132,000)	26,018,400
Batch V	28,150,400	—	(2,132,000)	26,018,400
<b>Total</b>	<b>140,752,000</b>	<b>(811,600)</b>	<b>(9,918,000)</b>	<b>130,022,400</b>
Exercisable at the end of the year				<u>25,948,800</u>
Weighted average exercise price				<u>HK\$1.464</u>

In respect of the share options exercised during the year, the average share price at the dates of exercise HK\$1.89.

31. SHARE - BASED PAYMENT TRANSACTION - *continued*

Share option scheme - *continued*

The following table discloses movements in the Company's share options held by directors and employees during the year ended 31 December 2015:

Types	Number of shares subject to share options				
	Outstanding at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year (Note)	Outstanding at 31 December 2015
Batch I	—	32,000,000	—	(3,849,600)	28,150,400
Batch II	—	32,000,000	—	(3,849,600)	28,150,400
Batch III	—	32,000,000	—	(3,849,600)	28,150,400
Batch IV	—	32,000,000	—	(3,849,600)	28,150,400
Batch V	—	32,000,000	—	(3,849,600)	28,150,400
<b>Total</b>	<b>—</b>	<b>160,000,000</b>	<b>—</b>	<b>(19,248,000)</b>	<b>140,752,000</b>
Exercisable at the end of the year					—
Weighted average exercise price					HK\$1.464

Note: Certain employees resigned during the year and respective share options were lapsed accordingly.

Details of specific categories of share options are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price HK\$
5 May 2015 (Batch I)	12 months	5 May 2016- 4 May 2025	1.464
5 May 2015 (Batch II)	24 months	5 May 2017- 4 May 2025	1.464
5 May 2015 (Batch III)	36 months	5 May 2018- 4 May 2025	1.464
5 May 2015 (Batch IV)	48 months	5 May 2019- 4 May 2025	1.464
5 May 2015 (Batch V)	60 months	5 May 2020- 4 May 2025	1.464



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

31. SHARE - BASED PAYMENT TRANSACTION - *continued*

Share option scheme - *continued*

The estimated fair values of the options granted on the following date were:

	HK\$
5 May 2015 (Batch I)	0.8124
5 May 2015 (Batch II)	0.8213
5 May 2015 (Batch III)	0.8267
5 May 2015 (Batch IV)	0.8323
5 May 2015 (Batch V)	0.8428

In respect of the share options granted on 5 May 2015, the fair values were calculated using the Binomial Model. The inputs into the model were as follows:

Batch	Number of options	Expected life year	Initial underlying HK\$	Exercise price HK\$	Risk free rate %	Dividend yield %	Volatility %
Batch I	32,000,000	7.75	1.410	1.464	1.51	—	55.33
Batch II	32,000,000	8.00	1.410	1.464	1.52	—	55.12
Batch III	32,000,000	8.25	1.410	1.464	1.53	—	54.62
Batch IV	32,000,000	8.50	1.410	1.464	1.55	—	54.18
Batch V	32,000,000	8.75	1.410	1.464	1.56	—	54.19

The Binomial Model had been used to estimate the fair value of the options. The model involves the construction of a binomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. In developing the binomial lattice, the life of the options is divided into various time steps. In each time step there is a binomial stock price movement. The main inputs to the model include the share price of the Company, exercise price, risk-free rate, expected volatility, dividend yield and expected life of the options. Expected volatility was determined by the historical share price of comparable companies in the relevant period.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

For the year ended 31 December 2016, the Group recognised approximately RMB22,232,000 (2015: approximately RMB20,357,000) share-based payment expenses in the profit or loss. In addition, approximately RMB4,484,000 (2015: approximately RMB4,106,000) and approximately RMB1,207,000 (2015: approximately RMB1,674,000) was capitalised in development costs and inventories, respectively.

### 32. ACQUISITION OF A SUBSIDIARY

On 15 April 2016, the Group acquired the entire 100% equity interests in Vast Medical Limited (“Vast Medical”) at a cash consideration of EUR30,000 (equivalent to RMB219,000). This acquisition has been accounted for using purchase method. Vast Medical is engaged in trading of medical devices. Vast Medical was acquired so as to continue the expansion of the Group’s overseas trading operations.

Assets acquired and liabilities assumed at the date of acquisition are as follows:

	RMB'000
Inventories	35
Trade receivables	103
Other receivables	602
Bank balances and cash	678
Trade and other payables	(76)
Bank borrowings	(1,096)
Tax payables	(27)
	<hr/>
Net assets	219
	<hr/> <hr/>
<b>Satisfied by:</b>	
Cash consideration paid	219
	<hr/>
<b>Net cash inflow arising on acquisition:</b>	
Cash consideration paid	219
Less: bank balances and cash acquired	(678)
	<hr/>
	(459)
	<hr/> <hr/>

The fair value and gross contractual amount of trade receivables and other receivables at the date of the acquisition amounted to approximately RMB602,000 and approximately RMB678,000 respectively. The best estimate at acquisition date of the contractual cash flow not expected to be collected is nil.

Included in the loss for the year is RMB226,000 attributable to the additional business generated by Vast Medical. Revenue for the year includes RMB 318,000 generated from Vast Medical.

Had the acquisition been completed on 1 January 2016, total group revenue for the year would have been RMB353,108,000, and profit for the year would have been RMB145,810,000. The information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

33. DISPOSAL OF SUBSIDIARIES

- (i) On 30 November 2016, the Group disposed of the entire 100% equity interests in Beijing PerMed Biomedical Engineering Co., Ltd. (“Beijing PerMed”) to an independent third party at a cash consideration of USD 31,000,000 (equivalent to RMB 213,482,000). The net assets of Beijing PerMed at the date of disposal were as follows:

	RMB'000
<b>Analysis of assets and liabilities over which control was lost:</b>	
Property, plant and equipment	1,496
Inventories	13,173
Intangible assets	—
Trade receivables	11
Other receivables	2,855
Bank balances and cash	275
Trade and other payables	(8,176)
	<u>9,634</u>
Net assets disposed of	<u>9,634</u>
<b>Gain on disposal of a subsidiary:</b>	
Consideration received	213,482
Net assets disposed of	(9,634)
	<u>203,848</u>
<b>Net cash inflow arising on disposal:</b>	
Cash consideration	213,482
Less: bank balances and cash disposed of	(275)
	<u>213,207</u>

33. DISPOSAL OF SUBSIDIARIES - *continued*

- (ii) On 14 August 2015, the Group disposed of the entire 60% equity interests in Shenzhen Shineyard Medical Device Co., Ltd. (“Shenzhen Shineyard”) at a cash consideration of RMB17,300,000. The net assets of Shenzhen Shineyard at the date of disposal were as follows:

	RMB'000
<b>Analysis of assets and liabilities over which control was lost:</b>	
Property, plant and equipment	559
Intangible assets	1,316
Deferred tax assets	61
Inventories	1,581
Trade and other receivables	3,666
Bank balances and cash	6,655
Trade and other payables	(863)
Net assets disposed of	<u>12,975</u>
<b>Gain on disposal of a subsidiary:</b>	
Consideration received	17,300
Net assets disposed of	(12,975)
Non-controlling interests	5,019
Reclassification of capital reserve upon disposal	(421)
Gain on disposal	<u>8,923</u>
<b>Net cash inflow arising on disposal:</b>	
Cash consideration	17,300
Less: bank balances and cash disposed of	(6,655)
	<u>10,645</u>

34. OPERATING LEASES

The Group as lessee

	2016 RMB'000	2015 RMB'000
Minimum lease payments paid under operating leases in respect of rented premises and during the year	<u>10,560</u>	<u>9,372</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

34. OPERATING LEASES - *continued*

The Group as lessee - *continued*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	7,868	7,701
In the second to fifth years inclusive	2,168	11,611
	<b>10,036</b>	<b>19,312</b>

Operating lease payments represent rentals payable by the Group for certain properties. Leases are negotiated and rentals are fixed for terms ranging from one to five years.

The Group as lessor

	2016 RMB'000	2015 RMB'000
Properties rental income	1,259	1,291

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2016 RMB'000	2015 RMB'000
Within one year	1,285	1,247
In the second to fifth years inclusive	—	1,226
	<b>1,285</b>	<b>2,473</b>

35. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment - contracted for but not provided in the consolidated financial statements	<b>54,061</b>	<b>132,468</b>

### 36. RETIREMENT BENEFITS SCHEME

The Group operates numbers of defined contribution plans across its geographies, the PRC retirement benefit scheme is the retirement arrangement of material size. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong.

The total cost paid or payable of approximately RMB 7,974,000 for the year ended 31 December 2016 (2015: approximately RMB6,724,000).

### 37. RELATED PARTY DISCLOSURES

#### (a) Transactions and trade balances

The amount is unsecured, interest-free and trade in nature with a credit period of 60 to 90 days. The amount is aged within 90 days at the end of the reporting period.

	2016 RMB'000	2015 RMB'000
Amount due from a shareholder:		
Medtronic	—	307
Amount due from an associate:		
Enke Medical	—	2,066
Amount due to a shareholder:		
Medtronic	24,045	13,509

The Group entered into the following transactions with related parties during the year:

Nature of transactions	2016 RMB'000	2015 RMB'000
Purchase of goods from Medtronic	6,931	—
Royalty fee paid and payable to Medtronic	11,125	5,205
Revenue from sales of goods to Medtronic	12	8,321
Pacemaker project consulting fees paid and payable to Medtronic	15,417	47,373
Revenue from sales of goods to Enke Medical	—	2,192
Sales return from Enke Medical	(549)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

37. RELATED PARTY DISCLOSURES - *continued*

(b) Non-trade balances

Nature of transactions	2016 RMB'000	2015 RMB'000
Amount due to a shareholder:		
Medtronic	5,377	—

Details of the Group's non-trade balances with shareholder are set out on the consolidated statement of financial position and in note 27.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the years ended 31 December 2016 and 2015 was as follows:

	2016 RMB'000	2015 RMB'000
Share-based payment	12,678	13,370
Short-term employee benefits	6,988	7,779
Post-employment benefits	358	256
	<b>20,024</b>	<b>21,405</b>

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

38. CONTINGENT LIABILITY

The Group is currently involved in a litigation in India. In 2008, a company (the "Plaintiff") filed a suit with The High Court of New Delhi (the "Court") at New Delhi, India, against (i) Lifetech Shenzhen, (ii) Lifetech Shenzhen's importer in India; and (iii) such importer's local Indian distributor (individually and collectively referred to as "Defendants"). The Plaintiff pleaded to the Court to issue a permanent injunction restraining the Defendants from importing and selling HeartR occluders in India which were accused of infringing the Plaintiff's patent. The Plaintiff also pleaded to order the national importer in India and its local Indian distributor to surrender all the rendition of accounts of profits or a decree of damages of Indian Rupee ("INR") 2,100,000 (equivalent to RMB206,000). As at 31 December 2016 and up to the date of the issuance of these consolidated financial statements, the recordal of evidence was completed; the final arguments are still awaited in the suit.

After seeking legal advice, the directors of the Company are of the opinion that it is not probable that the Court will grant a permanent injunction to the Plaintiff and it is also not probable for the Court to award damages to the Plaintiff or direct delivery of infringing devices. Accordingly, the directors consider that no provision is necessary for any potential liability in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

39. INTERESTS IN PRINCIPAL SUBSIDIARIES

Name of subsidiaries	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital/equity interests and voting power held by the Company		Principal activities
			2016	2015	
New Centre International Limited 新城市國際有限公司	Hong Kong	HKD1	100%	100%	Trading of medical devices
Lifetech Scientific India Private Ltd.	India	INR6,573,680	100%*	100%*	Trading of medical devices
LifeTech Scientific (Hong Kong) Co., Ltd. 先健科技(香港)有限公司	Hong Kong	HKD1	100%	100%	Investment holding
<sup>Δ</sup> Lifetech Scientific (Shenzhen) Co., Ltd. 先健科技(深圳)有限公司	The PRC	RMB100,000,000	100%	100%	Developing, manufacturing and trading of medical devices
<sup>Δ</sup> Beijing PerMed Biomedical engineering Co., Ltd. 北京市普惠生物醫學工程有限公司	The PRC	RMB 45,723,000	—	100%*	Developing, manufacturing and trading of medical devices
<sup>Δ</sup> Shenzhen Lifetech Material Biological Technology Co., Ltd. 深圳市先健生物材料技術有限公司	The PRC	RMB10,000,000	70%*(i)	99%*	Trading of medical devices
LifeTech Scientific (Europe) Coöperatief U. A.	Netherlands	EUR2,000	100%*	100%*	Investment holding
Lios Investment Corporation	British Virgin Islands	USD10	100%*	70%*	Investment holding
LifeTech Scientific (Netherlands) B.V.	Netherlands	EUR18,000	100%*	100%*	Trading of medical devices
Lifetech Scientific (France) SARL	France	EUR5,000	90%*	90%*	Trading of medical devices
Lios Russia LLC	Russia	RUB10,000	100%*	100%*	Trading of medical devices
LifeTech Scientific (Slovakia) s.r.o.	Slovakia	EUR5,000	100%*	100%*	Trading of medical devices
LifeTech Scientific Holdings Limited	British Virgin Islands	USD50,000	100%	N/A	Investment holding
LifeTech Scientific Medical Devices Limited	British Virgin Islands	USD50,000	100%	N/A	Investment holding



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

39. INTERESTS IN PRINCIPAL SUBSIDIARIES - *continued*

Name of subsidiaries	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital/equity interests and voting power held by the Company		Principal activities
			2016	2015	
LifeTech Scientific International Investments Limited	British Virgin Islands	USD50,000	100%	N/A	Investment holding
Lifetech Scientific America Corporation	USA	USD50,000	100%*	N/A	Investment holding
LifeTech Scientific Trading Limited 先健科技貿易有限公司	Hong Kong	HKD1	100%*	N/A	Trading of medical devices
Vast Medical Limited	Greece	EUR30,000	100%*	N/A	Trading of medical devices
△深圳市先健呼吸科技有限公司	The PRC	RMB1,000,000 <sup>#</sup>	100%*	N/A	Biomedical research and development, Consulting Services
△深圳市領先醫療服務有限公司	The PRC	RMB1,000,000 <sup>#</sup>	70%	N/A	Consulting Services

\* Indirectly held through subsidiaries.

# A wholly foreign owned enterprise.

△ Limited liability company established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

The directors consider none of the non-wholly owned subsidiaries of the Group has a material non-controlling interest, and accordingly, no summarised financial information in respect of any of these subsidiaries has been presented.

Notes:

- (i) The Company disposed 10% equity interests in Shenzhen Lifetech Material Biological Technology Co., Ltd. ("Shenzhen Lifetech Material") to Zhang Deyuan, a key management personnel of the Group, at a consideration of RMB1,000,000. In addition, the Company disposed 19% equity interests in Shenzhen Lifetech Material to 深圳市茗柯技術有限公司 at a consideration of RMB 1,900,000. The net asset value disposed of is approximately to the aggregate consideration.
- (ii) Subscribed registered capital has not fully paid at the year end of 2016.